UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A

(Amendment No. 1)

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report . . . .
Commission file number: 001-36450

JD.com, Inc.
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant’s name into English)

Cayman Islands
(Jurisdiction of incorporation or organization)

20th Floor, Building A, No. 18 Kechuang 11 Street
Yizhuang Economic and Technological Development Zone
Daxing District, Beijing 101111
People’s Republic of China
(Address of principal executive offices)

Sidney Xuande Huang, Chief Financial Officer
Telephone: +86 10 8911-8888
Email: ir@jd.com
20th Floor, Building A, No. 18 Kechuang 11 Street
Yizhuang Economic and Technological Development Zone
Daxing District, Beijing 101111
People’s Republic of China
(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered	Trading Symbol
American depositary shares (one American depositary share representing two Class A ordinary shares, par value US$0.00002 per share)	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)	JD
Class A ordinary shares, par value US$0.00002 per share*	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)	

* Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American depositary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer’s classes of capital or common stock as of the close of the period covered by the annual report.

2,449,222,672 Class A ordinary shares (excluding the 58,250,658 Class A ordinary shares issued to the depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plan) and 458,342,517 Class B ordinary shares, par value US$0.00002 per share, as of December 31, 2018.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. o Yes x No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x   Accelerated filer o   Non-accelerated filer o   Emerging growth company o

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐ Yes ☐ No

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x   International Financial Reporting Standards as issued by the International Accounting Standards Board o   Other o

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. o Yes o No

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EXPLANATORY NOTE

This Amendment No. 1 on Form 20-F/A (the "Amendment") is being filed by JD.com, Inc. (the "Company," "we," "our," or "us") to amend the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2018, originally filed with the U.S. Securities Exchange Commission on April 15, 2019 (the "Original Filing"). The Company is filing this Amendment to include the financial statements and related notes of Dada Nexus Limited ("Dada"), Bitauto Holdings Limited ("Bitauto") and Tuniu Corporation ("Tuniu"), as required by Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, as amended ("Rule 3-09").

Rule 3-09 requires, among other things, that separate financial statements for unconsolidated subsidiaries and investees accounted for by the equity method to be included in the Form 20-F when such entities are individually significant. We have determined that our equity method investments in Dada, Bitauto and Tuniu, each of which is not consolidated in our financial statements, were significant under Rule 1-02(w) and Rule 3-09 of Regulation S-X in relation to our financial results for the years ended December 31, 2016 and 2017, and our equity method investments in Dada was also significant under Rule 1-02(w) and Rule 3-09 of Regulation S-X in relation to our financial results for the year ended December 31, 2018. This Amendment is therefore filed to supplement the Original Filing with the inclusion of the financial statements and related notes of Dada, Bitauto and Tuniu as of December 31, 2016, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018 (the "Financial Statements of Dada, Bitauto and Tuniu"). In addition, Dada has restated its financial statements as of and for the years ended December 31, 2016 and 2017, all of which are included in the Financial Statements of Dada, Bitauto and Tuniu filed herewith.

This Form 20-F/A consists solely of the cover page, this explanatory note, the Financial Statements of Dada, Bitauto and Tuniu, certifications by our chief executive officer and chief financial officer, and the consents of the independent auditor of each of Dada, Bitauto and Tuniu. This Amendment does not affect any other parts of, or exhibits to, the Original Filing, nor does it reflect events occurring after the date of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing and with our filings with the U.S. Securities and Exchange Commission subsequent to the Original Filing.

Item 19. **Exhibits**

Exhibit Number	Description of Document
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3)
2.2	Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)
2.3	Deposit Agreement dated May 21, 2014 among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-198578), filed with the Securities and Exchange Commission on September 5, 2014)
2.4	Thirteenth Amended and Restated Shareholders Agreement between the Registrant and other parties therein dated March 10, 2014 (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)
2.5	Form of Indenture between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the registration statement on Form F-3 (File No. 333-210795) filed with the Securities and Exchange Commission on April 18, 2016)
2.6	First Supplemental Indenture dated April 29, 2016 between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the current report on Form 6-K (File No. 001-36450) furnished to the Securities and Exchange Commission on April 29, 2016)
2.7	Form of 3.125% Notes Due 2021 (included in Exhibit 2.6)
2.8	Form of 3.875% Notes Due 2026 (included in Exhibit 2.6)
4.1	Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-200450), as amended, initially filed with the Securities and Exchange Commission on November 21, 2014)
4.2	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)
4.3	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)

Exhibit Number	Description of Document
4.4	English translation of the Amended and Restated Loan Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated November 20, 2017 (incorporated herein by reference to Exhibit 4.4 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)
4.5	English translation of the Amended and Restated Equity Pledge Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.5 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.6	English translation of the Power of Attorney by the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.6 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.7†	English translation of the Second Amended and Restated Exclusive Technology Consulting and Service Agreement between Beijing Jingdong Century Trade Co., Ltd. and Beijing Jingdong 360 Degree E-Commerce Co., Ltd., dated June 15, 2016
4.8	English translation of the Amended and Restated Intellectual Property Rights License Agreement between Beijing Jingdong Century Trade Co., Ltd. and Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated December 25, 2013 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)
4.9	English translation of the Amended and Restated Business Cooperation Agreement between Beijing Jingdong Century Trade Co., Ltd., Shanghai Shengdayuan Information Technology Co., Ltd. and Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated May 29, 2012 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)
4.10	English translation of the Amended and Restated Exclusive Purchase Option Agreement between Beijing Jingdong Century Trade Co., Ltd., Beijing Jingdong 360 Degree E-Commerce Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.10 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.11	English translation of the Business Operations Agreement between Beijing Jingdong Century Trade Co., Ltd., Beijing Jingdong 360 Degree E-Commerce Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated November 20, 2017 (incorporated herein by reference to Exhibit 4.11 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)

Exhibit Number	Description of Document
4.12	English translation of the Amended and Restated Loan Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.12 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.13	English translation of the Amended and Restated Equity Pledge Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.13 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.14	English translation of the Power of Attorney by the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.14 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.15†	English translation of the Second Amended and Restated Exclusive Technology Consulting and Service Agreement between Beijing Jingdong Century Trade Co., Ltd. and Jiangsu Yuanzhou E-Commerce Co., Ltd., dated June 15, 2016
4.16	English translation of the Amended and Restated Intellectual Property Rights License Agreement between Beijing Jingdong Century Trade Co., Ltd. and Jiangsu Yuanzhou E-Commerce Co., Ltd. dated December 18, 2013 (incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)
4.17	English translation of the Amended and Restated Exclusive Purchase Option Agreement between Beijing Jingdong Century Trade Co., Ltd., Jiangsu Yuanzhou E-Commerce Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.17 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.18	English translation of the Business Operations Agreement between Beijing Jingdong Century Trade Co., Ltd., Jiangsu Yuanzhou E-Commerce Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated August 25, 2016 (incorporated herein by reference to Exhibit 4.18 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.19	Strategic Cooperation Agreement by and between the Registrant and Tencent Holdings Limited dated March 10, 2014 (incorporated herein by reference to Exhibit 10.22 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)

Exhibit Number	Description of Document
4.20	English translation of Business Cooperation Agreement between the Registrant and Bitauto Holdings Limited, dated January 9, 2015 (incorporated herein by reference to Exhibit 99.3 to Schedule 13D (File No. 005-85981) filed with the Securities and Exchange Commission on February 26, 2015)
4.21	Amended and Restated Investor Rights Agreement by and among Bitauto Holdings Limited, JD.com Global Investment Limited, Dongting Lake Investment Limited, Morespark Limited and Baidu Holdings Limited dated June 17, 2016 (incorporated herein by reference to Exhibit 99.6 to Schedule 13D/A (File No. 005-85981) filed with the Securities and Exchange Commission on June 21, 2016)
4.22†	English translation of Executed Form of the Equity Pledge Agreement between a wholly-owned subsidiary of the Registrant and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect
4.23†	English translation of Executed Form of the Power of Attorney by the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect
4.24†	English translation of Executed Form of the Exclusive Technology Consulting and Service Agreement between a wholly-owned subsidiary of the Registrant and a Chinese variable interest entity of the Registrant, as currently in effect
4.25†	English translation of Executed Form of the Business Operations Agreement between a wholly-owned subsidiary of the Registrant, a Chinese variable interest entity of the Registrant, and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect
4.26†	English translation of Executed Form of the Exclusive Purchase Option Agreement between a wholly-owned subsidiary of the Registrant, a Chinese variable interest entity of the Registrant, and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect
4.27†	English translation of Executed Form of the Loan Agreement between a wholly-owned subsidiary of the Registrant and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect
4.28	English translation of Executed Form of the Termination Agreement between a wholly-owned subsidiary of the Registrant, a Chinese variable interest entity of the Registrant, and the former shareholders of a Chinese variable interest entity, as currently in effect (incorporated herein by reference to Exhibit 4.29 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.29	English translation of Executed Form of the Subscription Agreement between a Chinese variable interest entity of the Registrant and Yonghui, dated August 7, 2015 (incorporated herein by reference to Exhibit 4.29 to the annual report on Form 20-F (File No. 001-36450) filed with the Securities and Exchange Commission on April 18, 2016)

Exhibit Number	Description of Document
4.30	Investor Rights Agreement between the Registrant and Newheight Holdings Ltd., dated June 20, 2016 (incorporated herein by reference to Exhibit 4.35 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.31	Framework Agreement by and among the Registrant, Beijing Jingdong Financial Technology Holding Co., Ltd. and other parties listed therein, dated March 1, 2017 (incorporated herein by reference to Exhibit 4.36 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.32	Intellectual Property License and Software Technology Services Agreement between the Registrant and Beijing Jingdong Financial Technology Holding Co., Ltd., dated March 1, 2017 (incorporated herein by reference to Exhibit 4.37 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)
4.33	English translation of Conditional Share Subscription Agreement by and between Suqian Jingdong Sanhong Enterprise Management Center (L.P.) and China United Network Communications Limited, dated August 16, 2017 (incorporated herein by reference to Exhibit 4.38 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)
4.34	Subscription Agreement by and among Vipshop Holdings Limited, Windcreek Limited, and Tencent Mobility Limited, dated December 17, 2017 (incorporated herein by reference to Exhibit 99.2 to our report on Schedule 13D filed with the Securities and Exchange Commission with respect to Vipshop Holdings Limited on January 8, 2018)
4.35	Investor Rights Agreement by and among Vipshop Holdings Limited, Windcreek Limited, Tencent Mobility Limited and other parties listed therein, dated December 29, 2017 (incorporated herein by reference to Exhibit 99.4 to our report on Schedule 13D filed with the Securities and Exchange Commission with respect to Vipshop Holdings Limited on January 8, 2018)
4.36	English summary of Strategic Partnership Agreement regarding Dalian Wanda Commercial Properties Co., Ltd. by and among Dalian Wanda Group Co., Ltd., Dalian Wanda Commercial Properties Co., Ltd., Tencent Technology (Shenzhen) Co., Ltd. and Beijing Jingdong Century Trading Co., Ltd., dated January 27, 2018 (incorporated herein by reference to Exhibit 4.41 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)
4.37	Series A Preference Shares Subscription Agreement by and between Jingdong Express Group Corporation and purchasers listed therein, dated February 14, 2018 (incorporated herein by reference to Exhibit 4.42 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)

Exhibit Number	Description of Document
4.38	Shareholders Agreement of Jingdong Express Group Corporation, dated March 7, 2018 (incorporated herein by reference to Exhibit 4.43 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)
4.39	US$1,000,000,000 Term and Revolving Credit Facilities Agreement dated between the Registrant and other parties thereto, dated December 21, 2017 (incorporated herein by reference to Exhibit 4.44 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)
4.40†	Investor Rights Agreement, by and between the Registrant and Google LLC, dated as of June 18, 2018
4.41†	Subscription Agreement, by and between the Registrant and Google LLC, dated as of June 18, 2018
4.42†	Subscription Agreement relating to the offering of limited partnership interests in JD Logistics Properties Core Fund, L.P.
4.43†	Share Purchase Agreement, by and between Jingdong E-Commerce (Logistics) Hong Kong Corporation Limited, as sellers, and JD Star Development X (HK) Limited, as purchaser, dated as of February 27, 2019
	(Portions of this exhibit have been omitted pursuant to Rule 406 under the Securities Act)
8.1†	List of Principal Subsidiaries and Consolidated Variable Interest Entities
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1†	Consent of PricewaterhouseCoopers Zhong Tian LLP
15.2†	Consent of Zhong Lun Law Firm
15.3*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP regarding the opinion in Exhibit 99.1
15.4*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP regarding the opinion in Exhibit 99.2

Exhibit Number	Description of Document
15.5*	Consent of PricewaterhouseCoopers Zhong Tian LLP regarding the opinion in Exhibit 99.3
15.6*	Consent of PricewaterhouseCoopers Zhong Tian LLP regarding the opinion in Exhibit 99.4
99.1*	Consolidated Financial Statements of Dada Nexus Limited as of and for the years ended December 31, 2016 (Restated) and 2017 (Restated)
99.2*	Consolidated Financial Statements of Dada Nexus Limited as of December 31, 2017 and 2018 and for each of the three years in the period ended December 31, 2018
99.3*	Consolidated Financial Statements of Bitauto Holdings Limited as of December 31, 2017 and 2018 and for each of the three years in the period ended December 31, 2018
99.4*	Consolidated Financial Statements of Tuniu Corporation as of December 31, 2017 and 2018 and for each of the three years in the period ended December 31, 2018
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

† Filed on April 15, 2019

* Filed herewith

** Furnished herewith

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

JD.com, Inc.

By:	/s/ Richard Qiangdong Liu
Name:	Richard Qiangdong Liu
Title:	Chairman and Chief Executive Officer

Date: June 28, 2019

Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard Qiangdong Liu, certify that:

1. I have reviewed this annual report on Form 20-F, as amended by Amendment No. 1 thereto, of JD.com, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: June 28, 2019

By: /s/ Richard Qiangdong Liu
Name: Richard Qiangdong Liu
Title: Chief Executive Officer

EXHIBIT 12.2

Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Sidney Xuande Huang, certify that:

1. I have reviewed this annual report on Form 20-F, as amended by Amendment No. 1 thereto, of JD.com, Inc. (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: June 28, 2019

By: /s/ Sidney Xuande Huang
Name: Sidney Xuande Huang
Title: Chief Financial Officer

EXHIBIT 13.1

Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of JD.com, Inc. (the "Company") on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on April 15, 2019, as amended by Amendment No. 1 thereto (the "Report"), I, Richard Qiangdong Liu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 28, 2019

By:	/s/ Richard Qiangdong Liu
Name:	Richard Qiangdong Liu
Title:	Chief Executive Officer

Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of JD.com, Inc. (the “Company”) on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on April 15, 2019, as amended by Amendment No. 1 thereto (the “Report”), I, Sidney Xuande Huang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 28, 2019

By:	/s/ Sidney Xuande Huang
Name:	Sidney Xuande Huang
Title:	Chief Financial Officer

EXHIBIT 15.3

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-229957 and No. 333-198578) and Form F-3 (No. 333-210795) of JD.com, Inc. of our report dated June 28, 2019 relating to the consolidated financial statements of Dada Nexus Limited, its subsidiaries, its variable interest entity (“VIE”) and VIE’s subsidiaries (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement of previously issued financial statements), appearing in Exhibit 99.1 to the Annual Report on Form 20-F/A (Amendment No. 1) of JD.com, Inc. for the year ended December 31, 2018.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Shanghai, the People’s Republic of China
June 28, 2019

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-229957 and No. 333-198578) and Form F-3 (No. 333-210795) of JD.com, Inc. of our report dated June 28, 2019 relating to the consolidated financial statements of Dada Nexus Limited, its subsidiaries, its variable interest entity (“VIE”) and VIE’s subsidiaries, appearing in Exhibit 99.2 to the Annual Report on Form 20-F/A (Amendment No. 1) of JD.com, Inc. for the year ended December 31, 2018.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Shanghai, the People’s Republic of China
June 28, 2019

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-229957 and No. 333-198578) and Form F-3 (No. 333-210795) of JD.com, Inc. of our report dated April 26, 2019 relating to the financial statements and the effectiveness of internal control over financial reporting of Bitauto Holdings Limited, which appears in this Form 20-F/A (Amendment No. 1).

/s/ PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
June 28, 2019

EXHIBIT 15.6

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-229957 and No. 333-198578) and Form F-3 (No. 333-210795) of JD.com, Inc. of our report dated April 4, 2019 relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting of Tuniu Corporation, which appears in this Form 20F/A (Amendment No. 1).

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
June 28, 2019

Exhibit 99.1

DADA NEXUS LIMITED
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Dada Nexus Limited:

We have audited the accompanying consolidated financial statements of Dada Nexus Limited (the "Company"), its subsidiaries, its variable interest entity ("VIE") and VIE's subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2017, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dada Nexus Limited, its subsidiaries, its VIE and VIE's subsidiaries as of December 31, 2016 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement of Previously Issued Financial Statements

As discussed in Note 21 to the consolidated financial statements, the accompanying 2016 and 2017 financial statements have been restated to correct certain errors. Our opinion is not modified with respect to this matter.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Shanghai, the People's Republic of China

June 28, 2019

DADA NEXUS LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016(Restated) and 2017(Restated)
(Renminbi in thousands, except share data and otherwise noted)

	Note	As of December 31, 2016 As Restated see Note 21	As of December 31, 2017 As Restated see Note 21
ASSETS			
Current assets:			
Cash and cash equivalents		1,977,574	1,559,537
Restricted cash		—	359,731
Short-term investments	5	205,420	324,746
Accounts receivable, net of allowance for doubtful accounts of RMB nil as of December 31, 2016 and 2017	6	3	6,946
Inventories, net		2,337	5,886
Amount due from related parties	18	32,858	48,760
Prepayments and other current assets	7	40,538	54,704
Total current assets		**2,258,730**	**2,360,310**
Property and equipment, net	8	5,621	12,863
Goodwill	3	957,605	957,605
Intangible assets, net	9	1,324,202	1,069,702
Other non-current assets		3,925	11,584
Total non-current assets		**2,291,353**	**2,051,754**
Total assets		**4,550,083**	**4,412,064**
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current liabilities (including amounts of the consolidated VIE without recourse to the Company. See Note 2.2):			
Short-term loan	10	—	354,499
Accounts payable		6,158	7,145
Payable to Drivers		160,467	265,015
Amount due to related parties	18	121,233	38,290
Accrued expenses and other current liabilities	11	151,045	258,115
Total current liabilities		**438,903**	**923,064**
Deferred tax liabilities	16	95,109	80,272
Warrant liabilities	12	197,705	—
Total non-current liabilities		**292,814**	**80,272**
Total liabilities		**731,717**	**1,003,336**
Commitments and contingencies	20		

DADA NEXUS LIMITED

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2016(Restated) and 2017(Restated)
(Renminbi in thousands, except share data and otherwise noted)

	Note	As of December 31, 2016 As Restated see Note 21	As of December 31, 2017 As Restated see Note 21
MEZZANINE EQUITY	14		
Series A Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 77,000,000 shares authorised, issued and outstanding as of December 31, 2016 and 2017, respectively)		12,930	14,064
Series B Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 37,748,300 shares authorised, issued and outstanding as of December 31, 2016 and 2017, respectively)		158,762	172,655
Series C Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 44,286,448 shares authorised, issued and outstanding as of December 31, 2016 and 2017, respectively)		661,884	720,028
Series D Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 95,524,122 shares authorised, 64,001,162 shares issued and outstanding as of December 31, 2016 and 2017, respectively)		1,881,800	2,041,281
Series E Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 128,637,939 shares authorised; 58,428,921 and 93,580,586 shares issued and outstanding as of December 31, 2016 and 2017, respectively)		1,707,072	2,935,726
Total Mezzanine equity		4,422,448	5,883,754
SHAREHOLDERS' DEFICIT			
Ordinary shares ($0.0001 par value, 1,616,803,191 shares authorized, 355,105,296 and 355,105,296 shares issued and outstanding as of December 31, 2016 and 2017, respectively)	15	227	227
Additional paid-in capital		1,826,825	1,513,420
Subscription receivable		(35)	(35)
Accumulated deficit		(2,642,680)	(4,091,770)
Accumulated other comprehensive income		211,581	103,132
Total shareholders' deficit		(604,082)	(2,475,026)
Total liabilities, mezzanine equity and shareholders' deficit		**4,550,083**	**4,412,064**

The accompanying notes are an integral part of these consolidated financial statements.

DADA NEXUS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2016(Restated) and 2017(Restated)
(Renminbi in thousands, except share data and otherwise noted)

	Note	Years ended December 31, 2016 As Restated, see Note 21	Years ended December 31, 2017 As Restated, see Note 21
Net Revenues		122,641	1,217,965
Operating expenses			
Cost of goods sold		(20,675)	(47,687)
Fulfilment expenses		(853,533)	(1,592,664)
Selling and marketing expenses		(480,973)	(723,463)
General and administrative expenses		(233,187)	(249,172)
Research and development expenses		(129,294)	(191,977)
Other operating expenses		(602)	(1,173)
Total operating expenses		**(1,718,264)**	**(2,806,136)**
Other operating income		60	1,408
Loss from operations		**(1,595,563)**	**(1,586,763)**
Other income/(expenses)			
Interest income		20,008	31,408
Interest expenses		—	(8,908)
Foreign exchange gain/(loss)		5,518	(4,253)
Fair value change in foreign currency forward contract		—	22,846
Fair value change in warrant liabilities		29,221	82,467
Total other income		**54,747**	**123,560**
Loss before income tax benefits		**(1,540,816)**	**(1,463,203)**
Income tax benefits	16	9,891	14,113
Net loss and net loss attributable to the Company		**(1,530,925)**	**(1,449,090)**
Accretion of convertible redeemable preferred shares	14	(295,809)	(374,246)
Net loss attributable to ordinary shareholders		**(1,826,734)**	**(1,823,336)**
Net Loss		**(1,530,925)**	**(1,449,090)**
Other comprehensive income/(loss)			
Foreign currency translation adjustments		172,418	(108,449)
Total comprehensive loss		**(1,358,507)**	**(1,557,539)**

accompanying notes are an integral part of these consolidated financial statements.

DADA NEXUS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2016(Restated) and 2017(Restated)
(Renminbi in thousands, except share data and otherwise noted)

	Note	Ordinary shares (par value US $0.0001) Numbers of Shares	Amount	Additional paid-in capital	Subscription receivables	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' deficit
Balance as of January 1, 2016 (As Restated)		**68,713,999**	**42**	**—**	**(35)**	**(1,073,704)**	**39,163**	**(1,034,534)**
Issuance of ordinary shares	3	286,832,885	185	2,034,434	—	—	—	2,034,619
Early exercise of stock options granted to non-employees	13	716,431		55	—	—	—	55
Repurchase of early exercised share options	13	(716,431)		(55)	—	—	—	(55)
Repurchase of ordinary shares from Co-founder	13	(441,588)		(3,730)	—	—	—	(3,730)
Share-based compensation	13	—	—	53,879	—	—	—	53,879
Net loss		—	—	—	—	(1,530,925)	—	(1,530,925)
Accretion of convertible redeemable preferred shares	14	—	—	(257,758)	—	(38,051)	—	(295,809)
Foreign currency translation adjustments		—	—	—	—	—	172,418	172,418
Balance as of December 31, 2016 (As Restated)		**355,105,296**	**227**	**1,826,825**	**(35)**	**(2,642,680)**	**211,581**	**(604,082)**
Share-based compensation	13	—	—	60,841	—	—	—	60,841
Net loss		—	—	—	—	(1,449,090)	—	(1,449,090)
Accretion of convertible redeemable preferred shares	14	—	—	(374,246)	—	—	—	(374,246)
Foreign currency translation adjustments		—	—	—	—	—	(108,449)	(108,449)
Balance as of December 31, 2017 (As Restated)		**355,105,296**	**227**	**1,513,420**	**(35)**	**(4,091,770)**	**103,132**	**(2,475,026)**

The accompanying notes are an integral part of these consolidated financial statements.

DADA NEXUS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016(Restated) and 2017(Restated)
(Renminbi in thousands and otherwise noted)

	Years ended December 31,	
	2016 As Restated see Note 21	2017 As Restated see Note 21
Cash flows from operating activities:		
Net loss	(1,530,925)	(1,449,090)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	138,136	209,061
Share-based compensation	93,128	60,841
Foreign exchange (gain)/loss	(5,518)	4,253
Loss from disposal of property and equipment	128	—
Fair value change in foreign currency forward contract	—	(22,846)
Fair value change in warrant liabilities	(29,221)	(82,467)
Changes in operating assets and liabilities:		
Accounts receivable	438	(6,943)
Inventories	(1,918)	(3,549)
Amount due from related parties	(31,081)	(15,902)
Prepayments and other current assets	(30,080)	(14,167)
Other non-current assets	(1,987)	(5,639)
Accounts payable	3,448	987
Amount due to related parties	92,787	(82,943)
Payable to Drivers	74,566	104,548
Accrued expenses and other current liabilities	(68,698)	107,069
Deferred tax liabilities	(9,891)	(14,837)
Net cash used in operating activities	**(1,306,688)**	**(1,211,624)**
Cash flows from investing activities:		
Disposal of wealth management product	3,572,546	2,348,604
Purchase of wealth management product	(3,161,966)	(2,445,084)
Increase in restricted cash	—	(359,731)
Purchase of property and equipment and intangible assets	(4,917)	(12,128)
Cash paid for purchase of other non-current assets	—	(2,000)
Proceeds from disposal of property and equipment	74	—
Cash acquired from business combination, net of cash paid (Note 3)	83,204	—
Net cash provided by/(used in) investing activities	**488,941**	**(470,339)**
Cash flows from financing activities:		
Proceeds from short-term loan	—	354,499
Proceeds from issuance of convertible redeemable preferred shares	1,778,540	983,820
Proceeds from early exercise of share options	55	—
Cash paid for repurchase of early exercised share options	(13,253)	—
Cash paid for repurchase of ordinary shares	(6,392)	—
Cash paid for repurchase of share options	(17,215)	—
Cash paid for share issuance costs	(10,475)	—
Net cash provided by financing activities	**1,731,260**	**1,338,319**
Effect of foreign exchange rate changes on cash and cash equivalents	**126,901**	**(74,393)**
Net increase (decrease) in cash and cash equivalents	**1,040,414**	**(418,037)**
Cash and cash equivalents, beginning of the year	937,160	1,977,574
Cash and cash equivalents, end of the year	1,977,574	1,559,537

DADA NEXUS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016(Restated) and 2017(Restated)
(Renminbi in thousands and otherwise noted)

	Years ended December 31,	
	2016	2017
Supplemental disclosure for cash flow information		
Cash paid for interest	—	5,514
Cash paid for income taxes	—	724
Supplemental disclosure of non-cash investing and financing activities:		
Accretion of convertible redeemable preferred shares	295,809	374,246
Payable in connection with the repurchase of early exercised share options of non-employees	6,174	—

See Note 3 for the non-cash investing activities related to the JDDJ business acquisition occurred on April 26, 2016.

The accompanying notes are an integral part of these consolidated financial statements.

(All amounts in thousands, except share and per share data)

1. ORGANIZATION AND NATURE OF OPERATIONS

Description of Business

Dada Nexus Limited (the "Company") was incorporated under the laws of the Cayman Islands on July 8, 2014. The Company through its wholly-owned subsidiaries, variable interest entity ("VIE") and VIE's subsidiaries (collectively, the "Group") primarily provides comprehensive logistic solution service, on-demand logistic platform service and online marketplace platform service to its customers through its mobile platforms, websites and mini programs. The Group's principal operations and geographic markets are in the People's Republic of China ("PRC").

As of December 31, 2017, the Company's major subsidiaries and consolidated VIE are as follows:

Name of Company	Place of incorporation	Date of incorporation/ acquisition	Percentage of direct or indirect economic ownership
Subsidiaries			
Dada Wisdom (HK) Limited ("Dada Wisdom")	Hong Kong	July 24, 2014	100%
Dada Glory Network Technology Ltd. ("Dada Glory")	PRC	November 7, 2014	100%
Shanghai JD Daojia Yuanxin Information Technology Co., Ltd. ("Yuanxin")	PRC	April 26, 2016	100%
VIE			
Shanghai Qusheng Internet Co. Ltd. ("Qusheng")	PRC	July 2, 2014	100%

2. PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for the years presented.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIE and VIE's subsidiaries in which it has a controlling financial interest. The results of the subsidiaries, VIE and VIE's subsidiaries are consolidated from the date on which the Company obtained control and continue to be consolidated until the date that such control ceases. A controlling financial interest is typically determined when a company holds a majority of the voting equity interest in an entity.

The Group has adopted the guidance codified in ASC 810, Consolidations ("ASC 810") on accounting for VIE, which requires certain variable interest entity to be consolidated by the primary beneficiary in which it has a controlling financial interest. A VIE is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support; (b) as a group, the holders of the equity investment at risk lack the ability to make certain decisions, the obligation to absorb expected losses or the right to receive expected residual returns, or (c) an equity investor has voting rights that are disproportionate to its economic interest and substantially all of the entity's activities are on behalf of the investor.

All intercompany balances and transactions between the Group, its subsidiaries, VIE and VIE's subsidiaries have been eliminated in consolidation.

VIE Arrangements

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates its websites and other restricted businesses in the PRC through certain PRC domestic companies, whose equity interests are held by certain management members and shareholders of the Group ("Nominee Shareholders"). On November 14, 2014, Dada Glory entered into a series of contractual agreements with Qusheng and its shareholders. The following is a summary of the agreements which allow the Dada Glory to exercise effective control over Qusheng:

Share Pledge Agreement

Under the equity interest pledge agreement entered between Dada Glory and the shareholders of Qusheng, the shareholders pledged all of their equity interests in Qusheng to guarantee their performance of their obligations under the Exclusive Business Cooperation Agreement. If the shareholders of Qusheng breach their contractual obligations under the Exclusive Business Cooperation Agreement, Dada Glory, as the pledgee, will have the right to dispose the pledged equity pursuant to the PRC law. The shareholders of Qusheng have not placed any security equity interests or allowed any encumbrance on the pledged equity interests. The equity interest pledge agreement remains effective until the shareholders of Qusheng have fully performed their obligations and repaid their consulting and service fees by the shareholders of Qusheng under the Exclusive Business Cooperation Agreement. During the equity pledge period, Dada Glory is entitled to all dividends and other distributions generated by Qusheng.

Exclusive Option Agreement

Pursuant to the exclusive option agreement entered into among Dada Glory, Qusheng and Qusheng's shareholders, Qusheng's shareholders irrevocably grant Dada Glory or its designated representatives an exclusive option to purchase, to the extent permitted under PRC law, all or part of the equity interest of Qusheng. The exercise price shall be the lowest price as permitted by the applicable PRC law at the time of the transfer of the optioned interest. The option term remains effective for a term of 10 years and can be extended at Dada Glory's election. Without Dada Glory's written consent, Qusheng and its shareholders may not sell, transfer, mortgage, or otherwise dispose of in any manner any assets, or legal or beneficial interest in the business or revenues, or allow the encumbrance thereon of any security interest.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of consolidation (continued)

VIE Arrangements (continued)

Exclusive Business Cooperation Agreement

Under the Exclusive Business Cooperation Agreement entered between Dada Glory and Qusheng, Qusheng appoints Dada Glory as its exclusive services provider with complete business support and technical and consulting services. Qusheng shall not accept any consultations or services provided by any third party, and shall not cooperate with any third party. Qusheng agrees to pay Dada Glory a monthly service fee for services performed, and the monthly service fee shall be 100% of the net income of Qusheng on a monthly basis. Unless earlier termination of this agreement by Dada Glory or relevant agreements separately executed between the parties, the term of this agreement shall be 10 years and extended term shall be determined by Dada Glory's election prior to the expiration thereof.

Power of Attorney

Pursuant to the irrevocable power of attorney, each of the Nominee Shareholders to exercise all shareholder rights under PRC law and the relevant articles of association, including but not limited to, proposing, convening and attending shareholders' meetings of Qusheng, voting on their behalf on all matters requiring shareholder approval, sale or transfer or pledging or disposing of all or part of the Nominee Shareholders' equity interests, and designating and appointing the senior management of Qusheng. Each power of attorney shall be irrevocably and continuously valid and effective from the date of its execution, unless Dada Glory issues adverse instructions in writing. Each Nominee Shareholders waive all the rights which have been authorized to Dada Glory under each power of attorney, and should not exercise such rights by themselves.

The irrevocable power of attorney has conveyed all shareholder rights held by the VIE' shareholders to Dada Glory, including the right to appoint board members who nominate the general managers of the VIE to conduct day-to-day management of the VIE's businesses, and to approve significant transactions of the VIE. In addition, the exclusive option agreements provide Dada Glory with a substantive kick-out right of the VIE's shareholders through an exclusive option to purchase all or any part of the shareholders' equity interest in the VIE at the lowest price permitted under PRC laws then in effect. In addition, through the exclusive support services agreements, the Company established the right to receive benefits from the VIE that could potentially be significant to the VIE, and through the equity pledge agreement, the Company has, in substance, an obligation to absorb losses of the VIE that could potentially be significant to the VIE.

Risks in relation to the VIE structure

The Company believes that the contractual arrangements amongst Dada Glory, Qusheng and their respective shareholders are in compliance with PRC law and are legally enforceable. The shareholders of Qusheng are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, Qusheng and their shareholders may fail to take certain actions required for the Company's business or to follow the Company's instructions despite their contractual obligations to do so. Furthermore, if Qusheng or their shareholders do not act in the best interests of the Company under the contractual arrangements and any dispute relating to these contractual arrangements remains unresolved, the Company will have to enforce its rights under these contractual arrangements through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. All of these contractual arrangements are governed by PRC law and provided for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. As a result, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements, which may make it difficult to exert effective control over Qusheng, and its ability to conduct the Company's business may be adversely affected.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of consolidation (continued)

VIE Arrangements (continued)

The following amounts and balances of the consolidated VIE were included in the Group's consolidated financial statements after the elimination of intercompany balances and transactions:

	As of December 31,	
	2016	2017
	RMB	RMB
Cash and cash equivalents	164	953
Short-term investments	—	1,000
Accounts receivable, net	—	1,574
Prepayments and other current assets	842	1,342
Property and equipment, net	100	60
Intangible assets, net	118	105
Other non-current assets	—	1
Total assets	1,224	5,035
Accounts payable	306	—
Amount due to related parties	—	32
Accrued expenses and other current liabilities	1,878	2,512
Total liabilities	2,184	2,544

	Years ended December 31,	
	2016	2017
	RMB	RMB
Net Revenues	—	9,843
Net loss	(21,362)	(24,915)
Net cash used in operating activities	(4,713)	(974)
Net cash used in investing activities	(197)	—
Net cash provided by financing activities	—	1,763

The VIE contributed approximately nil and 0.8% of the Group's consolidated net revenues for the years ended December 31, 2016 and 2017, respectively. As of December 31, 2016 and 2017, the VIE accounted for an aggregate of approximately 0.1% and 0.1%, respectively, of the consolidated total assets, and approximately 0.3% and 0.3%, respectively, of the consolidated total liabilities.

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Group or its subsidiaries to provide financial support to the VIE. However, if the VIE was ever to need financial support, the Group or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to its VIE through loans to the shareholders of the VIE or entrustment loans to the VIE.

The Group believes that there are no assets held in the consolidated VIE that can be used only to settle obligations of the VIE, except for registered capital and the PRC statutory reserves. As the consolidated VIE is incorporated as a limited liability company under the PRC Company Law, creditors of the VIE do not have recourse to the general credit of the Group for any of the liabilities of the consolidated VIE.

Relevant PRC laws and regulations restrict the VIE from transferring a portion of their net assets, equivalent to the balance of their statutory reserve and their share capital, to the Group in the form of loans and advances or cash dividends.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.3 Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets, long lived assets and liabilities at the dates of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, the Group's management reviews these estimates based on information that is currently available. Changes in facts and circumstances may cause the Group to revise its estimates. Significant accounting estimates reflected in the Group's financial statements mainly include the useful lives of property and equipment and intangible assets, assumptions used to measure the impairment of goodwill, property and equipment and intangible assets, assumptions impacting the valuation of ordinary shares, share options and warrant liabilities, the purchase price allocation in relation to business combination, and realization of deferred tax assets.

2.4 Functional currency and foreign currency translation

The Group uses Renminbi ("RMB") as its reporting currency. The functional currency of the Company is the United States dollar ("$", "US$" or "USD"). The functional currency of the Company's subsidiaries, VIE and VIE's subsidiaries is RMB or USD as determined based on the economic facts and circumstances.

Transactions denominated in other than the functional currencies are re-measured into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are re-measured at the balance sheet date exchange rate. The resulting exchange differences are included in the comprehensive loss.

Assets and liabilities of the Company and its subsidiaries with functional currency other than RMB are translated into RMB at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the fiscal year. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of other comprehensive loss.

2.5 Cash and cash equivalents

Cash and cash equivalents primarily consist of cash on hand and cash in bank which is highly liquid and unrestricted as to withdrawal and use.

2.6 Restricted cash

The Group's restricted cash mainly represents the deposits pledged for short-term bank loans.

2.7 Short-term investments

Short-term investments include (i) wealth management products issued by commercial banks or other financial institutions with variable interest rates indexed to the performance of underlying assets within one year; and (ii) a foreign currency forward contract sold by a commercial bank. These investments are stated at fair value. Changes in fair value of wealth management products is included in interest income and fair value changes of the foreign currency forward contracts are presented in "Fair value change in foreign currency forward contract".

2.8 Accounts receivable, net

Accounts receivable mainly consists of amount due from the Group's customers, which are recorded net of allowance for doubtful accounts. The Group performs ongoing credit evaluation of its customers, and assesses allowance for doubtful accounts based upon expected collectability based on the age of the receivables and factors surrounding the credit risk of specific customers.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.9 Inventories, net

Inventories, consisting of products available for sale, are stated at the lower of cost or market value. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated market value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment.

2.10 Property and equipment, net

Property and equipment is stated at cost less accumulated depreciation and impairment. Property and equipment is depreciated at rates sufficient to write off its costs less impairment and residual value, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Category	Estimated useful lives
Computer equipment	3 years
Office facilities	3-5 years
Vehicles	8 years
Software	3-5 years
Leasehold improvement	Over the shorter of the expected useful life or the lease term

Repairs and maintenance costs are charged to operating expenses as incurred, whereas the costs of renewals and betterment that extends the useful lives of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the costs, accumulated depreciation and impairment with any resulting gain or loss recognized in the other operation income or expenses of Consolidated Statements of Operations and Comprehensive Loss.

2.11 Business combination

U.S. GAAP requires that all business combinations to be accounted for under the purchase method. Since its incorporation, the Group adopted ASC 805, “Business Combinations”. Following this adoption, the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the Consolidated Statements of Operations and Comprehensive Loss.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgments. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted life cycle and forecasted cash flows over that period. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

2.12 Intangible assets, net

Intangible assets purchased are recognized and measured at cost upon acquisition and intangible assets arising from business combination are recognized and measured at fair value upon acquisition. The Group performs valuation of the intangible assets arising from business combination to determine the fair value to be assigned to each asset acquired. The acquired intangible assets are recognized and measured at fair value and are amortized using the straight-line approach over the estimated economic useful lives of the assets.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.13 Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Group's acquisitions of JDDJ business. Goodwill is not amortized but is reviewed at least annually for impairment or earlier, if any indication of impairment exists.

The Group adopted FASB revised guidance on "Testing of Goodwill for Impairment". Under this guidance, the Group has the option to choose whether it will apply the qualitative assessment first and then the quantitative assessment, if necessary, or to apply the quantitative assessment directly. For reporting units applying a qualitative assessment first, the Group starts the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Group determines that it is more likely not the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of goodwill with its carrying value. For reporting units directly applying a quantitative assessment, the Group performs the goodwill impairment test by quantitatively comparing the fair values of those reporting units to their carrying amounts.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. The Group performs the annual goodwill impairment assessment on December 31 and no goodwill impairment was identified as of December 31, 2016 and 2017 (Note 3).

2.14 Other non-current assets

Other non-current assets mainly consist of long-term lease deposits, a convertible loan to a private company, and investments in privately-held entities. For equity investments over which the Group does not have significant influence or control, the cost method of accounting is used. Under the cost method, the Group carries the investments at cost and recognizes income to the extent of dividend received from the distribution of the equity investee's post-acquisition profits.

The Group reviews investments in equity investees for other-than-temporary impairment. The primary factors the Group considers in its determination are duration and severity of the decline in fair value, general market conditions, operating performance and the prospects of the equity investees. If the equity investment's estimated fair value is less than the cost of the investment and the Group determines the impairment to be other-than-temporary, the Group recognizes an impairment loss for the difference between the fair value and the cost basis of the investment. No impairment loss was recognized for the years ended December 31, 2016 and 2017.

2.15 Warrant liabilities

Warrants classified as liabilities are initially recorded at fair value with gains and losses arising from changes in fair value recognized in the Consolidated Statements of Operations and Comprehensive Loss during the period in which such instruments are outstanding.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Fair value measurement

Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it transacts and considers assumptions that market participants use when pricing the asset or liability.

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Observable, market-based inputs, other than quoted prices, in active markets for identical assets or liabilities.
Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The fair value guidance describes three main approaches to measure the fair value of assets and liabilities: (1) market approach, (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities.

The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 Revenue recognition

The Group derives its revenues principally from merchants' use of the Group's core platforms in connection with online marketplace platform services, on-demand logistic platform services, and comprehensive logistic solution services.

- *Platform Service*

On-demand Logistic Platform Service

The Group provides on-demand logistic platform services through its self-developed on-demand logistics platform ("Dada Platform") where the Group assists the customer, a registered merchant, in finding a deliveryman ("Driver") to complete a delivery requested by the customer. The Group acts as an agent as it is not the primary obligor and does not bear the inventory risk. The service fee is the difference between the amount paid by a customer based on an upfront quoted fare and the amount earned by a Driver based on expected time, distance and other factors. The Group earns a variable amount from the customers and may record a loss from a transaction when an up-front quoted fare offered to a customer is less than the amount the Group is committed to pay the Driver. The service fee is recognized on a net basis at the point of delivery of merchandise. The loss of a transaction is recorded in fulfilment expenses in the Consolidated Statements of Operations and Comprehensive Loss.

JDDJ Marketplace Platform Service

The Group provides JDDJ marketplace platform services on its Online-to-Offline ("O2O") ecommerce grocery platform ("JDDJ Platform"). The service revenues primarily consist of commission fees charged to third-party merchants for participating in the Group's online marketplace, where the Group acts as an agent and facilitates the merchants' online sales of their goods through JDDJ Platform. The Group is not the primary obligor, does not take inventory risk, and does not have latitude over pricing of the merchandise. Upon successful sales, the Group charges the merchant a fixed rate commission fee based on the sales amount. Commission fee revenues are recognized on a net basis at the point of delivery of products.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 Revenue recognition (Continued)

- *Comprehensive Logistic Solution Services*

The Group provides comprehensive logistic solution services to merchants on its online marketplace and business customers that do not sell products on its online marketplace by utilizing the Group's network of registered Drivers to fulfil the delivery service. The Group has determined that it acts as a principal in this type of services as the Group is primarily responsible for fulfilling the delivery request made by the customer, has latitudes in establishing prices and discretion in selecting Drivers and takes the gross credit risk. Revenues resulting from these services are recognized on a gross basis at a fixed rate or a pre-determined amount for each completed delivery, when merchandise are arrived at designated place or packages are delivered to the recipients, with the amounts paid to the Drivers recorded in fulfillment expenses.

- *Goods Sales*

The Group operates its own e-commerce business and sells delivery equipment and other merchandise. The Group also sells merchandise through unmanned smart mini-stores. Revenue is recognized on a gross basis as the Group is primarily obligated to the customers, subject to inventory risk, and has latitude in establishing prices and selecting suppliers. The Group recognizes revenues net of discounts and return allowances when the goods are delivered to the customers.

- *Others*

Other services primarily comprise (i) online marketing services to merchants or brand customers for promotion of their products or brands on JDDJ marketplace platform and (ii) service fees received from insurance companies for arranging life insurance for Drivers. Revenue is recognised when service is rendered.

- *Incentive programs*

Customer incentives

The Group offers various incentive programs to merchants and business customers in the form of coupons or volume-based discounts in the provision of on-demand logistics platform service and comprehensive logistics solution service that are recorded as reduction of revenues as the Group does not receive a distinct good or service in consideration or cannot reasonably estimate the fair value of goods or services received.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 Revenue recognition (Continued)

Driver incentives

The Group offers various incentive programs to Drivers such as volume-based incentives. Since Drivers are not the Group's customers, incentives are accounted for as fulfillment expenses. For the years ended December 31, 2016 and 2017, incentives to Drivers recorded as fulfilment expenses were RMB74,745 and RMB127,392, respectively.

Consumer incentives

The consumer incentives are offered to promote the Group's platform in the form of promotion coupon on the JDDJ Platform, which are valid only during a limited period of time. These incentives are provided at the Group's discretion and are not contractually required by the merchants. These incentives also do not reduce the overall pricing of the services provided by the Group. As the consumers are not the Group's customers, incentives to consumers are recognized as selling and marketing expenses. For the years ended December 31, 2016 and 2017, consumer incentives that were recorded as selling and marketing expenses were RMB117,961 and RMB362,137, respectively.

All the incentives granted can be categorized into 1) incentives granted concurrent with a purchase transaction and 2) incentives granted not concurrent with a purchase transaction. When the incentive is granted concurrent with a purchase transaction, expenses or reduction of revenues are accrued as the related transactions are recorded. When the incentive is not granted concurrent with a purchase transaction, expenses or reduction of revenues are recognized with coupon redemption.

Types of revenues

For the years ended December 31, 2016 and 2017, all of the Group's revenues were generated in the PRC. The revenues by types were as follows:

	Years ended December 31,	
	2016	2017
	RMB	RMB
Comprehensive logistic solution services	30,640	933,606
Platform services	54,049	133,582
Sales of goods	20,506	41,924
Others	17,446	108,853
Total revenues	**122,641**	**1,217,965**

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.18 Cost of goods sold

Cost of goods sold primarily consist of purchase price of merchandise, inventory provision and surcharge and sales taxes.

2.19 Fulfilment expenses

Fulfilment expenses primarily consist of (i) Drivers' remuneration to fulfil the Group's logistics orders from merchants, (ii) expenses incurred in operating the Group's customer service centers, (iii) expenses charged by third-party couriers for logistics service and third-party customer service, (iv) transaction fees charged by third-party payment platform and (v) packaging cost as well as other fulfilment expenses directly attributed to the Group's principal operations.

2.20 Selling and marketing expenses

Selling and marketing expenses primarily consist of incentive payments to consumers, advertising and promotion expenses, payroll and related expenses for employees involved in selling and marketing functions in the city stations, as well as the associated expenses of facilities and equipment, such as depreciation expenses, rental and others. The advertising and market promotion expenses amounted to RMB47,217 and RMB156,317 for the years ended December 31, 2016 and 2017, respectively.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.21 Research and development expenses

Research and development expenses primarily consist of technology infrastructure expenses, payroll and related expenses for employees involved in platform development and internal system support, charges for the usage of the server and computer equipment, and editorial content.

2.22 Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing group are accounted for as operating leases. Payments made under operating leases net of any incentives received by the Group from the leasing group are charged to the Consolidated Statements of Operations and Comprehensive Loss on a straight-line basis over the leasing periods.

2.23 Share-based compensation

The Group accounts for share options granted to employees in accordance with ASC 718, “Stock Compensation”. The Group grants options and restricted share units to the Group’s employees, directors, and consultants. In accordance with the guidance, the Group determines whether a share option should be classified and accounted for as a liability award or an equity award.

Options and restricted share units granted to the employees, including the directors, vest upon satisfaction of a service condition, which is generally satisfied over four years and are measured at the grant date. Options granted to non-employees with a service condition are accounted for based on the fair value of the equity instrument issued, as this has been determined to be more reliably measurable. The Group has accounted for equity instruments issued to non-employees in accordance with the provisions of ASC 718 and ASC subtopic 505-50, “Equity: Equity based Payments to Non-Employees”. The fair value of each option granted to non-employees will be estimated on the date of grant using the same option valuation model used for options granted to employees. Options granted to non-employees of the Group are re-measured each period end in accordance with ASC 505. The final measurement date of the fair value of the equity instrument issued is the date on which the non-employee’s performance is completed.

Additionally, the Group’s incentive plan provides an exercisability clause where employees or non-employees can only exercise vested options upon the occurrence of the event that the Group’s ordinary shares are publicly traded. Options for which the service condition has been satisfied are forfeited should employment terminate prior to the occurrence of an exercisable event, which substantially creates a performance condition. The satisfaction of the performance condition becomes probable upon completion of the Group’s initial public offering and therefore, the Group has not recorded any compensation expenses and will record the cumulative share-based compensation expenses for these options when it completes the initial public offering.

According to ASC 718, a change in any of the terms or conditions of equity-based awards shall be accounted for as a modification of the award. Therefore, the Group calculates incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified. For vested options, the Group would recognize incremental compensation cost on the date of modification and for unvested options, the Group would recognize, prospectively and over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award.

2.24 Government grants

Government grants include cash subsidies received by the Group’s entities in the PRC from local governments as incentives for operating business in certain local districts. Such subsidies allow the Group full discretion in utilizing the funds and are used by the Group for general corporate purpose. Cash subsidies are included in other operating income and recognized when received.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.25 Taxation

Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements, net operating loss carry forwards and credits. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided in accordance with the laws of the relevant taxing authorities. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in which temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the Consolidated Statements of Operations and Comprehensive Loss in the period of the enactment of the change.

2.26 Comprehensive loss

Comprehensive loss is defined as the change in equity of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Comprehensive loss is reported in the Consolidated Statements of Operations and Comprehensive Loss. Accumulated other comprehensive loss, as presented on the accompanying Consolidated Balance Sheets, consists of accumulated foreign currency translation adjustments.

2.27 Recent accounting pronouncements

New accounting pronouncements not yet adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Group will adopt the new revenue standard beginning January 1, 2018 using the modified retrospective transition method. The impact of adopting this ASU will not be material to the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Under the new ASC, entities no longer use the cost method of accounting as it was applied before and the new ASC requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, a company can elect to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer (the “measurement alternative”). The Group will adopt this ASU beginning January 1, 2018 and does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on balance sheet and disclose key information about lease arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with terms of longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The standard is effective on January 1, 2019, with early adoption permitted. In July 2018, the FASB issued an update that provided an additional transition option that allows companies to continue applying the guidance under the lease standard in effect at that time in the comparative periods presented in the consolidated financial statements. Companies that elect this option would record a cumulative-effect adjustment to the opening balance of retained earnings on the date of adoption. The Group will elect this optional transition method. The Group is in the process of evaluating the impact on its consolidated financial statements, as well as the impact of adoption on policies, practices, systems and financial statement disclosures. As of December 31, 2017, RMB162,779 of undiscounted future minimum operating lease commitments were not recognized on the Group’s Consolidated Balance Sheets (see Note 20).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.27 Recent accounting pronouncements (Continued)

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Group will adopt this ASU beginning January 1, 2018 and does not expect the adoption of this ASU has a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows, Restricted Cash, which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The adoption of this accounting pronouncement impacts the presentation of restricted cash in the Company's Consolidated Statements of Cash Flows. The Group will adopt this ASU beginning January 1, 2018 in accordance with the retrospective transition method, including restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350), which simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for an entity's annual or any interim goodwill impairments tests in fiscal years beginning after December 15, 2019 and will require adoption on a prospective basis. The Group is currently in the process of evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718), which simplifies the accounting for non-employee share-based payment transactions by expanding the scope of ASC Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from non-employees. Under the new standard, most of the guidance on stock compensation payments to non-employees would be aligned with the requirements for share-based payments granted to employees. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods, with early adoption permitted. The Group is currently in the process of evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Group does not expect the adoption of this ASU has a significant impact on its consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810), which amends two aspects of the related-party guidance in ASC 810. Specifically, the ASU (1) adds an elective private-company scope exception to the variable interest entity guidance for entities under common control, and (2) amends the guidance for determining whether a decision-making fee is a variable interest. The amendments require organizations to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety (as currently required in GAAP). Therefore, these amendments likely will result in more decision makers not consolidating VIEs. For entities other than private companies, ASU 2018-17 is effective for fiscal years beginning after December 15, 2019, including interim periods therein. For private companies, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for all entities. This guidance will be adopted using a retrospective approach. The Group does not expect the adoption of this ASU has a significant impact on its consolidated financial statements.

3. BUSINESS COMBINATION

On April 26, 2016, the Group and JD.com, Inc. ("JD") entered into an agreement to acquire JDDJ Business, an online marketplace where registered merchants offers local retailers' products to its end consumers. In connection with the acquisition, the Company also entered into a Business Cooperation Agreement ("BCA") and a Non-Compete Agreement ("NCA") with JD.

The consideration for the acquisition of JDDJ business, BCA and NCA includes 286,832,885 ordinary shares of the Company, 46,743,137 Series E Preferred Shares and a warrant to subscribe 35,151,665 Series E Preferred Shares within two years with a pre-determined purchase price. The acquisition-related costs amounted to RMB 10,474 was recorded in general and administrative expenses. The transactions were consummated on April 26, 2016.

The acquisition of JDDJ business was accounted for as a business combination and the results of operations of the JDDJ from the acquisition date have been included in the Group's consolidated financial statements from April 26, 2016. BCA and NCA were acquired in connection with the acquisition of JDDJ Business. The identifiable intangible assets acquired are amortized on a straight-line basis over the respective useful lives. The Group made estimates and judgments in determining the fair value of JDDJ business, NCA and BCA with assistance from an independent valuation firm.

The purchase price allocation is as follows:

	Amount RMB
Fair value of the consideration	
Ordinary shares issued	2,034,619
Preferred shares issued	1,291,780
Warrant liabilities (Note 12)	214,286
Total consideration	**3,540,685**

	As of April 26, 2016 RMB	Amortization Years
Fair value of NCA	541,400	7
Fair value of BCA	434,900	7
JDDJ Business		
Cash and cash equivalents	1,374,984	
Other assets acquired	1,124	
Payables to marketplace merchants	(19,946)	
Amount due to related parties	(28,446)	
Accrued expenses and other current liabilities	(35,936)	
Identifiable intangible assets - Technology	96,000	3.7
Identifiable intangible assets - Trademark and Domain Name	324,000	9.7
Deferred tax liabilities for identifiable intangible assets	(105,000)	
Goodwill	957,605	
Total assets received and liabilities assumed	**3,540,685**	

3. BUSINESS COMBINATION (CONTINUED)

Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purpose. Goodwill arising from this acquisition was attributable to the synergies expected from the combined business.

The following table summarizes unaudited pro forma results of operations for the years ended December 31, 2016 assuming that the acquisition occurred as of January 1, 2016. The pro forma results have been prepared for comparative purpose only based on management's best estimate and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of the beginning of period:

	Year ended December 31, 2016 Unaudited RMB
Pro forma revenue	148,363
Pro forma loss from operations	(1,802,522)
Pro forma net loss	(1,760,939)

4. FAIR VALUE MEASUREMENTS

The Group's financial instruments include cash and cash equivalent, restricted cash, receivables, payables, prepayments and other current assets, short-term loan, amount due from and due to related parties and accrued expenses and other current liabilities. The carrying amounts of these short-term financial instruments approximate their fair value due to their short-term nature.

As of December 31, 2016 and 2017, information about inputs into the fair value measurement of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

			Fair Value Measurements at Reporting Date Using		
Years Ended December 31,	Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016	Wealth management products	205,420	—	205,420	—
2017	Wealth management products	301,900	—	301,900	—
2017	Foreign currency forward contract	22,846	—	22,846	—

See Note 12 for the fair value measurement of warrant liabilities.

5. SHORT-TERM INVESTMENT

	As of December 31,	
	2016	2017
	RMB	RMB
Wealth management products	205,420	301,900
Foreign currency forward	—	22,846
Total	**205,420**	**324,746**

The Group entered into a foreign currency forward contract on March 27, 2017 with a commercial bank to sell its time deposits denominated in USD for RMB at a fixed exchange rate of 7.03 on March 23, 2018 with the notional amount of USD52,380. The Group incurred fair value changes of RMB22,846 for the year ended December 31, 2017.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable and the related bad debt provision as of December 31, 2016 and 2017 are as follows:

	As of December 31,	
	2016	2017
	RMB	RMB
Accounts receivable	3	6,946
Less: Bad debt provision	—	—
Total Accounts receivable, net	**3**	**6,946**

7. PREPAYMENT AND OTHER CURRENT ASSETS

	As of December 31,	
	2016	2017
	RMB	RMB
Funds receivable from third party mobile and online payment platforms	14,402	24,275
Advance to suppliers mainly for cloud computing service	13,405	16,911
VAT receivable	9,294	2,299
Interest receivable from bank deposit and wealth management products	—	4,662
Deposits mainly for lease of premises	2,413	3,925
Other receivables	1,024	2,632
Total	**40,538**	**54,704**

8. PROPERTY AND EQUIPMENT, NET

Property and equipment and its related accumulated depreciation are as follows:

	As of December 31,	
	2016	2017
	RMB	RMB
Office facilities	1,295	6,708
Software	876	1,908
Computer equipment	471	1,636
Vehicles	60	60
Leasehold improvement	6,020	10,515
Total cost	8,722	20,827
Less: Accumulated depreciation	(3,101)	(7,964)
Property and equipment, net	**5,621**	**12,863**

Depreciation expenses related to property and equipment were RMB2,298 and RMB4,886 for the years ended December 31, 2016 and 2017, respectively.

9. INTANGIBLE ASSETS, NET

Gross carrying amount, accumulated amortization and net book value of the intangible assets are as follows:

	As of December 31,	
	2016	2017
	RMB	RMB
BCA	464,603	437,626
NCA	578,377	544,793
Trademark and domain name	324,130	324,130
Technology	96,000	96,000
Less: Accumulated amortization	(138,908)	(332,847)
Intangible assets, net	**1,324,202**	**1,069,702**

Amortization expenses related to intangible assets were RMB135,838 and RMB204,175 for the years ended December 31, 2016 and 2017, respectively.

The estimated aggregate amortization expenses for each of the five succeeding fiscal years and thereafter are as follows:

	Future amortization expenses
	RMB
For the years ending December 31,	
2018	200,381
2019	200,381
2020	174,701
2021	174,235
2022	174,235
Thereafter	145,769
Total	1,069,702

10. SHORT-TERM LOAN

	As of December 31,	
	2016	2017
	RMB	RMB
Short-term bank borrowings	—	354,499

In March 2017, the Group entered into a credit agreement with a domestic commercial bank, for which the total facility was amounted to RMB 950,000 (the "Facility") with a term of one year. In 2017, the Group drew five borrowings from the Facility for an aggregated principal amount of RMB 354,499 which was collateralized by the bank deposit of US$ 52,380 (RMB 342,261) classified as restricted cash. The annual interest rate of the borrowings was approximately 3.92%, resulting in interest expenses of RMB8,908 for the year ended December 31, 2017.

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,	
	2016	2017
	RMB	RMB
Salaries and welfare payables	39,152	52,225
Payables to marketplace merchants (1)	25,971	36,678
Advance from merchants for delivery service (2)	22,343	39,470
Accrued marketing expenses for JDDJ Platform	16,373	27,696
Deposits from merchants and Drivers	12,107	7,362
Professional fee payables	3,413	3,890
Tax payables	21,967	77,394
Rental payables	—	31
Interest payable	—	3,395
Others	9,719	9,974
Total	**151,045**	**258,115**

(1) Payables to marketplace platform merchants represent cash collected on behalf of marketplace sellers for products sold through the Group's online marketplace platform.
(2) Advance from merchants for logistic service represents the prepayments from merchants for on-demand logistic platform services. The amount is refundable if no service is provided.

12. WARRANT LIABILITIES

In connection with the acquisition of JDDJ business on April 26, 2016, a warrant was issued to JD (Note 3), which provided JD the right to purchase additional 35,151,665 Series E Preferred Shares with the pre-determined purchase price of US$ 4.28 per share and exercisable at any time and expire on the earlier of (i) 24 months after issuance or (ii) immediately prior to a public offering ("Qualified IPO"). The warrant shall automatically terminate upon the completion of a Qualified Financing. A Qualified Financing means a bona fide private placement financing by the Company, which (i) values the Company at a pre-money valuation (excluding any amount of exercise price paid under this warrant) of at least US$4,090,950 and (ii) upon completion, will result in gross proceeds to the Company of at least US$100,000 in the aggregate (taking into account all closings of such financing if there is more than one closing).

The Group followed the authoritative guidance which requires liability classification for warrant issued that are exercisable into convertible redeemable preferred shares. Liability classification requires the warrant to be re-measured to their fair value at the end of each reporting period. The Group utilized the service of an independent third party specialist to determine the fair value of the warrant, which took into consideration the fair value of underlying preferred shares, a risk-free interest rate, and expected volatility. Certain inputs used in the model are unobservable. As a result, the valuation of the warrant was categorized as Level 3 in accordance with ASC 820, "Fair Value Measurement".

On December 28, 2017, the warrants were exercised by JD, upon which JD paid the subscription amounting to US$ 150,404 (RMB 983,820) for 35,151,665 Series E Preferred Shares.

12. WARRANT LIABILITIES (CONTINUED)

The Group estimates its fair value using binomial model as of December 31, 2016 and December 28, 2017 (immediate prior to the exercise of the warrants) using the following assumptions:

	As of December 31, 2016		As of December 28, 2017	
Fair market value per share as of valuation date	US$	4.35	US$	4.47
Exercise price	US$	4.28	US$	4.28
Risk free rate of interest		1.63%		2.10%
Dividend yield		0.00%		0.00%
Expected volatility		38%		30%

The carrying fair value of the warrant liabilities on exercise date was US$15,800 (RMB103,240), and the fair value changes in warrant liabilities for the years ended December 31, 2016, and 2017 were US$4,500 (RMB29,221) and US$12,700 (RMB82,467), respectively.

The Group estimated expected volatility by reference to the historical share price volatility of comparable companies over a period close to the remaining life of the warrant. The Group estimated the risk free interest rate based on the yield to maturity of U.S. Treasure Bill on the valuation date, with the maturity period close to the remaining life of the warrant and adjusted by country risk differential between US and China. The estimated fair value of the preferred shares was determined with assistance from an independent third party valuation firm. The dividend yield was estimated as zero based on the plan to retain profit for corporate expansion and no dividend distribute in the near future. The assumptions used in warrant fair value assessment represent the Group's best estimates, but these estimates involve inherent uncertainties and the application of judgment. If factors change or different assumptions are used, the fair value change of warrants could be materially different for any period.

13. SHARE-BASED COMPENSATION

In February 2015, the Group adopted the 2015 Incentive Compensation Plan ("2015 Plan"), which permits the granting of share options, restricted share units and other equity incentives to employees, directors and consultants of the Group. The 2015 plan administrator is the Group's board of directors. The board may also authorize one or more of the Group's officers to grant awards under the plan. The Group has authorized 68,698,662 ordinary shares for issuance under the 2015 Plan.

Employee options:

Under the 2015 Plan, options granted to employees vest upon satisfaction of a service condition, which is generally satisfied over four years. Additionally, the 2015 Plan includes a condition where employees can only exercise vested options upon the occurrence of that the Company's ordinary shares become listed securities, which substantially creates a performance condition ("IPO Condition"). Therefore, since the adoption of the 2015 Plan, the Group has not recognized any stock-based compensation expenses for options granted, because the exercisable event as described above has not occurred. The Group granted 7,632,897 and 3,057,177 share options to certain of its employees in 2016 and 2017, respectively. The options expire ten years from the date of grant.

In October 2016, in connection with the issuance of Series E Preferred Shares, the board of directors of the Company resolved to repurchase 1,199,608 share options from employees with a cash consideration of US$2,553 (RMB17,215). The Group believes that the repurchase was one-off in nature and the classification of the awards should not be changed as these awards were not deemed to have a substantive cash settlement feature. The repurchase of share options was an improbable-to-probable modification of the unvested awards and therefore accounted for as the issuance of a new award. The consideration paid for the repurchase was recognized as compensation cost in general and administrative expenses on settlement date.

13. SHARE-BASED COMPENSATION (CONTINUED)

Non-employee options:

Under the 2015 Plan, the Group granted 2,000,000 share options to certain non-employees vest upon satisfaction of a 4-year service condition in 2015, including a condition where optionee can only exercise vested options when the Company's ordinary shares become listed securities. The options expire ten years from the date of grant. The Group granted 862,390 and nil share options to certain of its non-employees in 2016 and 2017, respectively.

In April 2016, the board of directors agreed for early vesting and repurchase of 716,431 share options at the price of US$4.19 (RMB27.12) per share. The Group believes that the repurchase was one-off in nature and the classification of the awards should not be changed as these awards were not deemed to have a substantive cash settlement feature. The repurchase of early exercised share options was an improbable-to-probable modification of the unvested awards and accounted for as the issuance of a new award. The consideration paid for the repurchase was recognized as compensation cost in general and administrative expenses with an amount of US$2,991 (RMB19,372) on settlement date.

In determining the fair value of the stock options, the binomial option pricing model was applied. The key assumptions used to determine the fair value of the options at the relevant grant dates in 2016 and 2017 were as follows:

	For the years ended December 31,	
	2016	**2017**
Expected volatility	40%~42%	36%~40%
Risk-free interest rate (per annum)	2.4%~3.3%	3%~3.2%
Exercise multiples	2.2	2.2 and 2.8
Expected dividend yield	0.00%	0.00%

The Group estimated expected volatility by reference to the historical price volatilities of ordinary shares of comparable companies over a period close to the contract term of the options. The Group estimated the risk free interest rate based on the yield to maturity of U.S. government bonds at grant dates with a maturity period close to the contract term of options, adjusted by country risk differential between U.S. and China. As the Group has had no option exercise history, it estimated exercise multiples based on empirical research on typical employee stock option exercising behavior. The dividend yield was estimated as zero based on the plan to retain profit for corporate expansion and no dividend distribute in near future. The assumptions used in share-based compensation expenses recognition represent the Group's best estimates, but these estimates involve inherent uncertainties and the application of judgment. If factors change or different assumptions are used, the share-based compensation expenses could be materially different for any period.

13. SHARE-BASED COMPENSATION (CONTINUED)

The following table summarized the Group's share option activities under the Option Plans:

	Number of options	Weighted average exercise price	Weighted average remaining contract life	Weighted average grant date fair value	Aggregate intrinsic value
		US$		US$	US$
Outstanding at January 1, 2016	**27,446,620**	**0.02**	**9.12**	**0.12**	**29,045**
Granted	8,495,287	0.80		0.64	
Exercised	(716,431)	0.01		0.11	
Repurchased	(1,199,608)	0.01		0.12	
Forfeited/Cancelled	(791,125)	0.32		0.30	
Outstanding at December 31, 2016	**33,234,743**	**0.21**	**9.06**	**0.25**	**33,431**
Granted	3,057,177	0.80		0.98	
Forfeited/Cancelled	(3,830,251)	0.54		0.46	
Outstanding at December 31, 2017	**32,461,669**	**0.23**	**8.48**	**0.30**	**52,253**

As of December 31, 2017, share-based compensation of US$3,235 (RMB21,822) would be recognised immediately if the IPO Condition had been met.

Escrowed shares

On November 11, 2014 and April 20, 2015, in conjunction with the issuance of preferred shares, the Group entered into a share restriction agreement with the founder and Co-founder to secure their services, pursuant to which all of their 72,887,414 ordinary shares of the Company became subject to transfer restrictions. In addition, the restricted shares shall initially be unvested and subject to repurchase by the Group at par value upon voluntary or involuntary termination of employment (the "Repurchase Right"). The Repurchase Right terminates over 4 and 3.6 years, respectively, in 48 and 43 equal monthly instalments thereafter. The founder and the Co-founder retain the voting rights of such restricted shares and any additional securities or cash received as the result of ownership of such shares, such as a share dividend, become subject to restriction in the same manner. The Group measured the fair values of the restricted shares as of November 11, 2014 and April 20, 2015 and recognized the amount as compensation expenses over the 48 and 43 months deemed service period on a straight-line basis.

	Number of restricted shares	Weighted average grant date fair value
		US$
Unvested at January 1, 2016	52,607,687	0.10
Vested	(18,567,416)	0.10
Unvested at December 31, 2016	34,040,271	0.10
Vested	(18,567,416)	0.10
Unvested at December 31, 2017	15,472,855	0.10

13. SHARE-BASED COMPENSATION (CONTINUED)

On December 17, 2016, the Group paid US$945 (RMB6,392) to repurchase the co-founder's 441,588 ordinary shares that were released from the restriction (Note 15). The fair value of the ordinary shares was US$1.25 (RMB8.47) per share on the repurchase date. The amount of cash to repurchase the vested shares was charged to additional paid-in capital ("APIC"), to the extent that the amount paid does not exceed the fair value of the vested shares, which is US$552 (RMB3,730) and the excess of the fair value amounted US$393 (RMB2,662) is recorded in general and administrative expenses as compensation cost.

Total share-based compensation expenses recognized for these restricted shares in 2016 and 2017 were US$2,311 (RMB14,413) and US$1,918 (RMB11,752), respectively. As of December 31, 2017, there were US$1,598 (RMB10,774) of unrecognized compensation expenses related to the restricted shares.

Restricted share units

On December 8, 2015 and May 27, 2016, the Group granted restricted share units of 14,185,333 and 9,348,000, respectively, to employees including directors, subject to service vesting schedule of four years under the 2015 Plan. The estimated fair values on the grant date of each restricted share unit were US$1.16 (RMB7.60) and US$1.08 (RMB6.92), respectively. In 2016 and 2017, 7,011,000 and 1,898,813 restricted share units were forfeited, respectively, due to resignation of employees.

The following table summarized the Group's restricted share unit activities under the 2015 Plan:

	Number of restricted share units	Weighted average grant date fair value
		US$
Unvested at January 1, 2016	14,185,333	1.08
Granted	9,348,000	1.16
Vested	(3,887,146)	1.11
Cancelled	(7,011,000)	1.16
Unvested at December 31, 2016	12,635,187	1.08
Vested	(3,643,708)	1.13
Forfeited	(1,898,813)	1.16
Unvested at December 31, 2017	7,092,666	1.03
Expected to vest at December 31, 2017	7,902,666	

Restricted share units granted to employees are measured based on their grant-date fair values and recognized as compensation cost on a straight-line basis over the requisite service period. Total share-based compensation expenses recognized for these restricted share units in 2016 and 2017 were US$4,301 (RMB28,649) and US$4,124 (RMB28,586), respectively. As of December 31, 2017, there were US$7,660 (RMB50,052) of unrecognized compensation expenses related to unvested restricted share units which is expected to be recognized over a weighted-average period of 2 years.

13. SHARE-BASED COMPENSATION (CONTINUED)

<u>JD's Share Incentive Plan (the "JD Employee Awards")</u>

On April 26, 2016, the Group consummated the acquisition of JDDJ business from JD. The acquisition involved the transfer of certain employees from JD to the Group. These employees were granted with unvested restricted share units by JD (the "JD Employee Awards") when they were employed by JD. The JD Employee Awards which are generally vested annually over six years continued in effect after the acquisition for the employees transferred to the Group, provided that these employees continue their employment with the Group or any subsidiaries of JD.

The Group recognizes the entire cost of JD Employee Awards incurred by JD, the Group's investor, as compensation cost with a corresponding amount as a capital contribution according to ASC 505-10-25-3. The Group remeasured the awards at a fair-value-based amount as of the end of each reporting period until performance is completed. Total share compensation amounts recorded were US$1,861 (RMB13,479) and US$3,028 (RMB20,503) for the years ended December 31, 2016 and 2017, respectively. As of December 31, 2017, there were US$11,865 (RMB79,997) of unrecognized compensation expenses related to unvested restricted share unit which is expected to be recognized over a weighted-average period of 4.52 years.

	Number of restricted share units	Weighted average fair value
		US$
Unvested at April 26, 2016	307,799	25.56
Granted	300,000	21.31
Vested	(77,172)	24.11
Forfeited	(14,718)	23.94
Unvested at December 31, 2016	515,909	25.44
Vested	(80,653)	37.54
Forfeited	(148,809)	30.29
Unvested at December 31, 2017	286,447	41.42
Expected to vest at December 31, 2017	286,447	

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES

In November, 2014, the Group issued 7,700,000 (with par value of US$ 0.001, later each share was split into 10 shares with par value of US$ 0.0001 for each) Series A Preferred Shares with a total cash proceed of US$ 1,777 (RMB 10,900).

In November 2014, the Group entered into a bridge loan agreement in a total amount of US$ 2,000 (RMB 12,295) with its Series A shareholders (collectively, the "Bridge Loan Holders"). On January 12 and January 19, 2015, the Group entered into promissory notes agreement with one of the above mentioned Series A shareholders and a third party investor (collectively, the "2015 Notes Holders") respectively. The principal under the respective promissory notes agreement were US$ 1,000 and US$ 2,000, respectively.

In February 2015, the Group issued totalling 28,666,661 Series B Preferred Shares to new investors with a total proceed of US$ 17,200 (RMB 105,737). At the same time, all the Bridge Loan Holders converted the outstanding principal of US$ 2,000 into 4,081,638 Series B Preferred Shares at a conversion price of US$ 0.49 per share. All the 2015 Notes Holders converted the outstanding principal of US$ 3,000 on their 2015 Notes into 5,000,001 Series B Preferred Shares at a conversion price of US$ 0.6 per share.

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

In May 2015, the Group issued totalling 44,286,448 Series C Preferred Shares at US$ 2.1451 per share for an aggregate purchase price of US$ 95,000 (RMB581,362). In connection with the issuance of Series C Preferred Shares, the Group repurchased 2,330,866 ordinary shares from its founder with the consideration of US$5,000 (RMB30,598). The excess of the purchase price over the par value of the ordinary share with an amount of US$1,538 (RMB 9,413) was charged in accumulated deficit due to absence of APIC and the excess of the purchase price over the fair value of the ordinary share with an amount of US$3,462 (RMB 21,185) was recognized as compensation to its executive.

In September 2015, the Group issued totalling 58,508,525 Series D Preferred Shares at US$ 4.19 per share for an aggregate purchase price of US$ 245,000 (RMB1,558,519). In April 2016, the Group issued additional totalling 5,492,637 Series D Preferred Shares at US$ 4.19 per share for an aggregate purchase price of US$ 23,000 (RMB 148,555).

In April 2016, in connection with the acquisition of JDDJ business, the Group issued 46,743,137 Series E Preferred Shares at US$ 4.28 per share with an aggregate purchase price of US$200,000 (RMB1,291,780), or US$198,378 (RMB1,281,306), net of issuance cost amounted RMB10,474 and a warrant, which provided JD the right to subscribe 35,151,665 Series E Preferred Shares with the pre-determined purchase price of US$ 4.28 per share and exercisable at any time and expire on the earlier of (i) 24 months after issuance or (ii) immediately prior to a public offering (Note 3).

In October 2016, the Group issued another totalling 11,685,784 shares (with par value of US$ 0.0001) of Series E Preferred Shares to a new investor at US$ 4.28 per share with an aggregate purchase price of US$50,000 (RMB 338,205).

The issuance cost related to Series E Preferred Shares was RMB 10,474.

In December 2017, JD exercised the warrant and subscribed 35,151,665 Series E Preferred Shares at US$ 4.28 per share with an consideration of US$ 150,403 (RMB983,820).

The key terms of the Series A, B, C, D and E convertible redeemable preferred shares are as follows:

Conversion

Each holder of preferred shares shall have the right, at such holder's sole discretion, to convert all or any portion of the preferred shares into ordinary shares on a one-for-one basis at any time. The initial conversion price is the issuance price of preferred shares, subject to adjustment in the event of (1) stock splits, share combinations, share dividends and distribution, recapitalizations and similar events, and (2) issuance of new securities at a price per share less than the conversion price in effect on the date of or immediately prior to such issuance. In that case, the conversion price shall be reduced concurrently to the subscription price of such issuance. Additionally, the Series E conversion price shall be reduced, upon the earlier to occur of: (i) January 1, 2018 or (ii) the Company raising gross proceeds of at least US$100,000 in the aggregate through Next Equity Financing (taking into account all closings of such financing if there is more than one closing).

Each preferred share shall automatically be converted by way of repurchase of such preferred share and the issuance of the corresponding number of ordinary shares, based on the then applicable effective Series A conversion price, Series B conversion price, Series C conversion price, Series D conversion price or Series E conversion price, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares upon the earlier of (i) the closing of a qualified IPO and (ii) the date specified by written consent or agreement of, collectively and each voting as a separate class, (i) the holders holding a majority of the then outstanding Series A Preferred Shares, (ii) the holders holding at least sixty percent (60%) of the then outstanding Series B preferred Shares, (iii) the holders holding at least fifty percent (50%) of the then outstanding Series C Preferred Shares, (iv) the holders holding at least fifty percent (50%) of the then outstanding Series D Preferred Shares, and (v) the holders holding at least fifty percent (50%) of the then outstanding Series E Preferred Shares.

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Redemption

At any time after the earliest of (i) the fifth (5th) anniversary of August 08, 2018, if a qualified IPO has not been consummated by then, (ii) the date that the Group and the Founder are engaged in any material fraudulent activities aiming at the holders of preferred shares, (iii) any important license, permit or government approvals necessary for the business of any group being suspended, rejected to be issued or renewed or revoked, to the extent that the Group’s main business is materially and adversely affected as a result of such suspension, rejection or revocation, (iv) the validity, legality or enforceability of the VIE documents being outlawed by the PRC law, and (v) the date that any governmental authority prohibits any group from distributing all or any part of its distributable earnings or cash or other assets thereof to an offshore shareholder of any Group’s subsidiaries, the Group shall, at the written request of any holder of the preferred shares.

Equal to one hundred percent (100%) of the Series A issue price (in the case of Series A Preferred Shares), one hundred percent (100%) of the applicable Series B issue price (in the case of Series B Preferred Shares), one hundred percent (100%) of the applicable Series C issue price (in the case of Series C Preferred Shares), one hundred percent (100%) of the applicable Series D issue price (in the case of Series D Preferred Shares) or one hundred percent (100%) of the applicable Series E issue price (in the case of Series E Preferred Shares) with an eight percent (8%) compound per annum return (if the period is less than one year, such return shall be calculated pro rata) calculating from the applicable Series A issue date, Series B issue date, Series C issue date, Series D issue date or Series E issue date (as the case may be) to the redemption price payment date, plus any accrued but unpaid dividends on such share and shall be exclusive of any liquidity or minority ownership discount, with payment on the twentieth (20th) business day after the date of written request by the holders of preferred shares.

Liquidation Preference

In the event of any liquidation, dissolution or winding up of the Group, whether voluntary or involuntary, all assets and funds of the Group legally available for distribution to the members (after satisfaction of all creditors’ claims and claims that may be preferred by law) shall be distributed to the members of the Group as follows:

(1) Amount to one hundred percent (100%) of Series B Preferred Shares, Series C Preferred Shares, Series D Preferred Shares or Series E Preferred Shares holder (collectively, the “Senior Preferred Shares”), plus all declared but unpaid dividends on such Senior Preferred Shares. If the assets and funds thus distributed among the holders of the Senior Preferred Shares shall be insufficient to permit the payment to such holders of the full Series B, Series C, Series D, and Series E Preference Amount (collectively, the “Senior Preference Amount”), then the entire assets and funds of the Group legally available for distribution shall be distributed ratably among the holders of the Senior Preferred Shares in proportion to the aggregate Senior Preference Amount each such holder is otherwise entitled to receive pursuant to this term;

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

(2) If there are any assets or funds remaining after distribution according to above term (1), the holders of the Series A Preferred Shares shall be entitled to receive for each Series A Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Group to the holders of the ordinary shares by reason of their ownership of such shares, the amount equal to one hundred percent (100%) of the Series A issue price ("Series A Preference Amount"). If the assets and funds thus distributed among the holders of the Series A Preferred Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire assets and funds of the Group legally available for distribution to the Series A Preferred Shares shall be distributed ratably among the holders of the Series A Preferred Shares in proportion to the aggregate Series A Preference Amount each such holder is otherwise entitled to receive pursuant to this term;

(3) If there are any assets or funds remaining after the aggregate Senior Preference Amount and the aggregate Series A Preference Amount has been distributed or paid in full to the applicable holders of Preferred Shares pursuant to term (1) and (2), the remaining assets and funds of the Group available for distribution to the members shall be ratably distributed among all members according to the relative number of ordinary shares held by such member (including the holders of the Series A Preferred Shares, the Series B Preferred Shares, the Series C Preferred Shares, the Series D Preferred Shares and the Series E Preferred Shares).

Dividends

(1) Each holder of a Preferred Share shall be entitled to receive noncumulative dividend at the rate of eight percent (8%) of the applicable Series A issue price, Series B issue price, Series C issue price or Series D issue price or Series E issue price as the case may be, per annum for each such share held by such holder, payable out of funds or assets when and as such funds or assets become legally available therefore on parity with each other, prior and in preference to, and satisfied before, any dividend on any other class or series of shares. Such dividends shall be payable only when, as, and if declared by the Board of Directors.

(2) No dividend or distribution, whether in cash, in property, or in any other shares of the Group, shall be declared, paid, set aside or made with respect to the ordinary shares at any time unless all accrued but unpaid dividends on the Preferred Shares set forth in term (1), if any, have been paid in full, and a distribution is likewise declared, paid, set aside or made, respectively, at the same time with respect to each outstanding Preferred Share such that the dividend or distribution declared, paid, set aside or made to the holder thereof shall be equal to the dividend or distribution that such holder would have received pursuant to this term if such Preferred Share had been converted into ordinary shares immediately prior to the record date for such dividend or distribution, or if no such record date is established, the date such dividend or distribution is made, and if such share then participated in and the holder thereof received such dividend or distribution.

Voting Rights

Subject to the provisions of Seventh Amended and Restated Memorandum and Articles (including any Article providing for special voting rights), at all general meetings of the Group: (a) the holder of each ordinary share issued and outstanding shall have one vote in respect of each ordinary share held, and (b) the holder of a preferred share shall be entitled to such number of votes as equals the whole number of ordinary share into which such holder's collective preferred shares are convertible immediately after the close of business on the record date of the determination of the Group's members entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Group's members is first solicited. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as converted basis (after aggregating all shares into which the preferred shares held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). To the extent that the statute or the articles allow the preferred shares to vote separately as a class or series with respect to any matters, the preferred shares, shall have the right to vote separately as a class or series with respect to such matters.

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Accounting for the Preferred Shares

The Group has classified the preferred shares as mezzanine equity as these preferred shares are redeemable upon the occurrence of an event not solely within the control of the Group. The holders of the preferred shares have a redemption right and liquidation preference and will not receive the same form of consideration upon the occurrence of the conditional event as the ordinary shareholders would.

The Group recorded the initial carrying amount of the preferred shares with its issuance price, which approximated the issuance date fair value, after the reduction of the issuance cost. The Group uses interest method to accrete the carry value of the preferred shares to their maximum redemption price at the end of each reporting period. The change in redemption value is recorded against retained earnings, or in the absence of retained earnings, against APIC. Once APIC has been exhausted, additional charges are recorded by increasing the accumulated deficit.

The Group did not identify any derivatives embedded in the preferred shares that were qualified for bifurcation and subject to fair value accounting. The Group also determined that there was no beneficial conversion feature attributable to the preferred shares, as the effective conversion price was not less than the fair value of the ordinary shares on the respective commitment date.

The following table summarised the roll-forward of the carrying amount of the preferred equity for the years of 2016 and 2017:

	Series A RMB	Series B RMB	Series C RMB	Series D RMB	Series E RMB	Total RMB
January 1, 2016	11,901	146,147	609,086	1,591,439	—	**2,358,573**
Issuance	—	—	—	148,556	1,619,510	**1,768,066**
Accretion	1,029	12,615	52,798	141,805	87,562	**295,809**
December 31, 2016	12,930	158,762	661,884	1,881,800	1,707,072	**4,422,448**
Issuance	—	—	—	—	1,087,060	**1,087,060**
Accretion	1,134	13,893	58,144	159,481	141,594	**374,246**
December 31, 2017	**14,064**	**172,655**	**720,028**	**2,041,281**	**2,935,726**	**5,883,754**

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

As of December 31, 2017, a summary of convertible redeemable preferred shares are as follows:

Series	Average Issue Price per Share US$	Issuance Date	Shares Issued	Shares Outstanding	Proceeds from Issuance, net of Issuance Costs US$	Carrying/ Redemption Amount RMB
A	0.2307	11/11/2014	77,000,000	77,000,000	1,777	14,064
B	0.5881	13/02/2015	37,748,300	37,748,300	22,200	172,654
C	2.1451	22/05/2015	44,286,448	44,286,448	95,000	720,029
D	4.1874	23/09/2015	58,508,525	58,508,525	245,000	1,870,583
D	4.1874	05/04/2016	5,492,637	5,492,637	23,000	170,698
E	4.2787	26/04/2016	46,743,137	46,743,137	198,378	1,477,768
E	4.2787	20/10/2016	11,685,784	11,685,784	50,000	370,898
E	4.2787	28/12/2017	35,151,665	35,151,665	150,403	1,087,060
			316,616,496	**316,616,496**	**785,758**	**5,883,754**

15. ORDINARY SHARES

On July 10, 2014, the Company was incorporated with an issuance of 6,100,000 ordinary shares to the founder at a par value of US$ 0.001 each. On February 7, 2015, the Company effected a 1-for-10 share split of the Company's shares. The number of outstanding ordinary shares of 6,100,000 split into 61,000,000 shares while the par value of US$ 0.001 was converted into US$0.0001. Subscription receivable of RMB 35 from the founder was recorded as of December 31, 2016 and 2017.

On April 20, 2015, the Group issued 10,044,865 ordinary shares subject to share restriction agreement to the co-founder with proceeds of zero (Note 13).

On May 29, 2015, the Group paid US$ 5,000 (RMB 30,598) to repurchase 2,330,866 outstanding ordinary shares at US$ 2.1451 per share from its founder and all the repurchased ordinary shares were retired in 2015. (Note 14).

On April 14, 2016, the Group paid US$ 3,000 (RMB 19,429) to repurchase 716,431 early exercised share options from non-employees at US$ 4.1874 per share and all the repurchased shares were retired in 2016. The total consideration was charged against general and administrative expenses (Note 13).

On April 26, 2016, the Group entered into a share purchase agreement with JD, pursuant to which the Group issued 286,832,885 ordinary shares to JD in connection with the acquisition of JDDJ business (Note 3).

On December 17, 2016, the Group paid US$ 945 (RMB 6,392) to repurchase 441,588 ordinary shares from the co-founder at US$ 2.14 per share to compensate his service (Note 13).

16. TAXATION

Income Taxes

Cayman Islands

Under the current laws of the Cayman Islands, the Company incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% since January 1, 2010. Operations in Hong Kong have incurred net accumulated operating losses for income tax purpose and no income tax provisions are recorded for the period presented.

China

On March 16, 2007, the National People’s Congress of the PRC introduced a new Corporate Income Tax Law (“new CIT Law”), under which Foreign Investment Enterprises (“FlEs”) and domestic companies would be subject to corporate income tax at a uniform rate of 25%.

Withholding tax on undistributed dividends

The new CIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The implementing rules of the CIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, property, etc., of a non-PRC company is located”. Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its operations outside of the PRC should be considered a resident enterprise for PRC tax purposes.

The new CIT law also imposes a withholding income tax of 10% on dividends distributed by an FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company is incorporated, does not have such tax treaty with China. According to the arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE).The Company did not record any dividend withholding tax, as it has no retained earnings for any of the periods presented.

16. TAXATION (CONTINUED)

Loss by tax jurisdictions:

	Years ended December 31, 2016 RMB	Years ended December 31, 2017 RMB
Loss from PRC operations	1,447,549	1,380,349
Loss from non-PRC operations	93,267	82,854
Total losses before tax	1,540,816	1,463,203

The current and deferred portion of income tax expenses included in the Consolidated Statements of Operations and Comprehensive Loss are as follows:

	Years ended December 31, 2016 RMB	Years ended December 31, 2017 RMB
Current tax expenses	—	724
Deferred tax benefits	(9,891)	(14,837)
Income tax benefits	**(9,891)**	**(14,113)**

Reconciliation of difference between PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2016 and 2017 are as follows:

	Years ended December 31, 2016	Years ended December 31, 2017
Statutory tax rate	25.0%	25.0%
Effect of different tax rate of subsidiary operation in other jurisdiction	(1.5)%	(1.5)%
Changes in valuation allowance	(23.3)%	(22.9)%
Amortization of deferred tax liabilities from the identified intangible assets	0.6%	1.0%
Other expenses not deductible for tax purposes	(0.6)%	(1.4)%
Super deduction of research and development expenses	0.4%	0.8%
Effective tax rate	**0.6%**	**1.0%**

<u>Deferred tax assets and deferred tax liabilities</u>

	As of December 31, 2016 RMB	As of December 31, 2017 RMB
Deferred tax assets		
- Net operating loss carry forwards	599,850	915,212
- Accrued expenses	20	19,115
Less: Valuation allowance	(599,870)	(934,327)
Net deferred tax assets	**—**	**—**
Deferred tax liabilities		
- Identifiable intangible assets from business combination	95,109	80,272
Total deferred tax liabilities	**95,109**	**80,272**

16. TAXATION (CONTINUED)

As of December 31, 2016 and 2017, the Group had net operating loss carry forwards of approximately RMB 2,399,399, and RMB 3,660,846, respectively, which arose from the subsidiaries, VIE and VIE's subsidiaries established in the PRC. The loss carry forwards will expire during the period from 2018 to 2022.

The Group believes that it is more likely than not that the net accumulated operating losses and other deferred tax assets will not be utilized in the future based on an evaluation of a variety of factors including the Group's operating history, accumulated deficit, existence of taxable temporary differences and reversal periods. Therefore, the Group provided full valuation allowances for the deferred tax assets as of December 31, 2016 and 2017, respectively.

Movement of valuation allowance

	Years ended December 31,	
	2016	2017
	RMB	RMB
Balance at beginning of the year	241,837	599,870
Addition	358,033	334,457
Balance at end of the year	**599,870**	**934,327**

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of income taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of income tax liability exceeding RMB100 is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The Group's PRC subsidiaries are therefore subject to examination by the PRC tax authorities from 2014 through 2017 on non-transfer pricing matters, and from 2014 through 2017 on transfer pricing matters.

17. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, amount due from related parties and prepayments. The Group places its cash and cash equivalents and short-term investments with financial institutions with high-credit ratings and quality. Accounts receivable mainly consist of amounts receivable from merchants, which are all with good collection history. There are no significant concentrations of credit risk. With respect to prepayments, the Group performs on-going credit evaluations of the financial condition of these suppliers.

Concentration of customers

The following customer accounted for 10% or more of revenues for the years ended December 31, 2016 and 2017, respectively.

	Years ended December 31,	
	2016	2017
	RMB	RMB
Customer A	28,462	691,002

17. CONCENTRATION OF CREDIT RISK (CONTINUED)

The following customer accounted for 10% or more of accounts receivable as of December 31, 2016 and 2017, respectively.

	As of December 31,	
	2016	2017
	RMB	RMB
Customer B	3	*
Customer C	*	4,536
Customer D	*	1,290

* Less than 10%.

The following suppliers accounted for 10% or more of accounts payable as of December 31, 2016 and 2017, respectively.

	As of December 31,	
	2016	2017
	RMB	RMB
Supplier A	*	773
Supplier B	*	1,470
Supplier C	1,175	1,338
Supplier D	*	875
Supplier E	1,120	*
Supplier F	1,041	*

* Less than 10%.

Foreign currency risk

RMB is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Group included aggregated amounts of RMB81,705 and RMB138,489 denominated in RMB, as of December 31, 2016 and 2017, respectively.

18. RELATED PARTY TRANSACTIONS

The table below sets forth the major related parties and their relationships with the Group as of December 31, 2017:

Name of related parties	Relationship with the Group
JD and its subsidiaries (“JD Group”)	Shareholder of the Company
Co-founder	Executive of the Group

(a) The Group entered into the following transactions with the major related parties:

	As of December 31,	
	2016	2017
	RMB	RMB
Revenues		
Comprehensive logistic solution services to JD Group	—	691,002
On-demand logistic platform services to JD Group	28,462	—
Operating expenses:		
Operational support services from JD Group	122,621	29,986
Purchases from JD Group	1,033	7,191

JD Group provides certain operational support services to the Group and the service fee is charged based on the actual usage incurred.

(b) The Group had the following balances with the major related parties:

	As of December 31,	
	2016	2017
	RMB	RMB
Current assets:		
Amount due from JD Group	32,330	48,232
Amount due from co-founder	528	528
Total	**32,858**	**48,760**
Current liabilities:		
Amount due to JD Group	121,233	38,290
Total	**121,233**	**38,290**

The Group provides collection of Cash on Delivery service when performing comprehensive logistics solution services to JD Group. Amount due to JD Group includes cash collected from consumers on behalf of JD.COM when merchandises are delivered to them.

19. EMPLOYEE BENEFIT

As stipulated by the regulations of the PRC, full-time employees of the Group are entitled to various government statutory employee benefit plans, including medical insurance, maternity insurance, workplace injury insurance, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Group is required to make contributions to the plan based on certain percentages of employees’ salaries. The total expenses the Group incurred for the plan were RMB27,767 and RMB53,404 for the years ended December 31, 2016 and 2017, respectively, which are recorded in expenses based on the function of employees.

20. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group has leased office premises under operating lease agreements for the periods from 2018 to 2024. Future minimum lease payments for non-cancellable operating leases are as follows:

	As of December 31, 2017
	RMB
2018	40,519
2019	32,227
2020	21,181
2021	17,958
2022 and after	50,894
	162,779

Rental expenses amounted to RMB9,705 and RMB17,578 for the years ended December 31, 2016 and 2017, respectively. Rental expenses are charged to the Consolidated Statements of Operations and Comprehensive Loss when incurred.

Contingencies

The Group is subject to periodic legal or administrative proceedings in the ordinary course of its business. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material adverse effect on the financial statements.

21. RESTATEMENT AND RECLASSIFICATIONS

Subsequent to the issuance of the Group's consolidated financial statements for the year ended December 31, 2017, the Group revisited its consolidated financial statements and determined to change the presentation of certain accounts in order to better reflect its business and be comparable to peer companies. Therefore, certain comparative amounts for the prior years have been reclassified to conform to current-year classifications. Additionally, the Group identified certain material errors and as a result has restated the Group's previously issued consolidated financial statements for the years ended December 31, 2016 and 2017.

Restatement of previously issued consolidated financial statements

The following errors in the Group's annual financial statements were identified and corrected as part of the restatement:

(a) Revenue related adjustments

In 2017, the Group erroneously recorded certain revenue earned from on-demand logistic platform service on a gross basis, rather than on a net basis as required by the accounting standards based on the nature of the transactions. The correction of this error resulted in a RMB557,149 reduction in both net revenues and fulfilment expenses for the year ended December 31, 2017.

In 2017, the Group erroneously recorded coupons to merchants in selling and marketing expenses, however based on the nature of the transactions, these coupons should be treated as considerations payable to customers and recorded as a reduction of revenue accordingly. The Group also erroneously recorded coupons issued to consumers on the JDDJ Platform for the promotion activities as reductions of revenue. However, these amounts should be treated as selling and marketing expenses as the consumers are not considered as the Group's customers in these transactions. In 2016 and 2017, the Group erroneously recorded certain amounts of revenues derived from on-demand logistic platform services as reductions of selling and marketing expenses, instead of revenues based on the nature of the transactions. The correction of these errors resulted in an increase of RMB34,287 in both net revenues and selling and marketing expenses for the year ended December 31, 2016 and a decrease of RMB3,194 in both net revenues and selling and marketing expenses for the year ended December 31, 2017.

(b) Share-based compensation

In 2016 and 2017, the Group misreported an amount due from the Co-founder and the share-based compensation expenses for the share restriction arrangements with the founder and the Co-founder (Note 13). The correction of this error resulted in an increase of RMB13,869 in general and administrative expenses, an increase of RMB11,476 in APIC, an increase of RMB1,297 in opening accumulated deficit and a decrease of RMB1,096 in amount due from related parties as of and for the year ended December 31, 2016. The correction of this error also resulted in an increase of RMB11,151 in general and administrative expenses, an increase of RMB23,228 in APIC, an increase of RMB12,571 in opening accumulated deficit and a decrease of RMB494 in amount due from related parties as of and for the year ended December 31, 2017.

In 2016, the Group erroneously did not record the share-based compensation expenses for the JD Employee Awards for certain periods (Note 13). The correction of this error resulted in increases of RMB35, RMB3,298, and RMB37 in selling and marketing expenses, general and administrative expenses and research and development expenses, respectively and a corresponding increase of RMB3,370 in APIC, as of and for the year ended December 31, 2016. The correction of this error resulted in an increase of RMB3,370 in opening accumulated deficit for the year ended December 31, 2017 and APIC as of December 31, 2017.

(c) Foreign currency translation

The Group miscalculated the translation of the NCA and BCA acquired in connection with the JDDJ business acquisition from USD to RMB (Note 3). The correction of this error resulted in increases of RMB60,178, RMB3,498 and RMB63,676 in intangible assets, general and administrative expenses and accumulated other comprehensive income as of and for the year ended December 31, 2016 and increases of RMB4,281, RMB5,571, RMB3,498 and RMB13,350 in intangible assets, general and administrative expenses, opening accumulated deficit and accumulated other comprehensive income as of and for the year ended December 31, 2017, respectively.

(d) Cash and cash equivalents

In 2016 and 2017, the Group erroneously classified short-term investments in wealth management products and certain amounts of cash held in accounts managed by the third party mobile and online payment platforms such as Alipay, WeChat Pay and JD Wallet as cash and cash equivalents. The correction of this error resulted in increases of RMB50,920 and RMB17,000 in short-term investments and increases of RMB14,402 and RMB24,275 in prepayment and other current assets as of December 31, 2016 and 2017, respectively. Accordingly, the cash and cash equivalents as of December 31, 2016 and 2017 decreased by RMB65,322 and RMB41,275, respectively.

21. RESTATEMENT AND RECLASSIFICATIONS (CONTINUED)

(e) VAT tax

In 2017, the Group erroneously overstated the VAT receivables in prepayments and other current assets and VAT payables in accrued expenses and other current liabilities. The correction of this error resulted in a decrease of RMB11,121 in accrued expenses and other current liabilities as well as prepayments and other current assets as of December 31, 2017.

(f) Long-term lease deposits

In 2016 and 2017, the Group erroneously recorded long-term lease deposits in the prepayment and other current assets. The correction of this error resulted in decreases of RMB259 and RMB6,103 in prepayment and other current assets and the corresponding increases in other non-current assets as of December 31, 2016 and 2017, respectively.

(g) Acquisition cost

In 2016, the Group erroneously recorded the acquisition cost for JDDJ business combination (Note3) as share issuance cost. The correction of this error resulted in an increase of RMB 10,474 in both general and administrative expenses and APIC as of and for the year ended December 31, 2016. The correction of this error also resulted in an increase of RMB10,474 in opening accumulated deficit for the year ended December 31, 2017 and APIC as of December 31, 2017.

(h) Warrant

In 2016 and 2017, the Group applied certain incorrect assumptions in determining the fair values of the ordinary shares and warrants issued in connection with the JDDJ business combination (Note 12). The correction of this error resulted in increases of RMB42,926, RMB149,146, and RMB29,221 in goodwill, warrant liabilities and fair value change in warrant liabilities, respectively, and decreases of RMB9,536 in accumulated other comprehensive income and RMB125,905 in APIC as of and for the year ended December 31, 2016, respectively, and increases of RMB42,926, RMB47,696 and RMB91,558 in goodwill, mezzanine equity and fair value change in warrant liabilities, respectively, and decreases of RMB 29,221 in opening accumulated deficit, RMB301 in accumulated other comprehensive income and RMB125,248 in APIC as of and for the year ended December 31, 2017, respectively.

Reclassifications

The following items in prior financial statements have been reclassified to conform to the current presentation primarily for the following reasons:

(i) The Group decided not to present cost of revenues and gross profit, and thus, reclassified the costs related to the fulfilment of logistic services to the fulfilment expenses and retained the cost of goods sold. Additionally, the Group reclassified certain expense items to different accounts based on the nature of those expenses. These reclassifications resulted in the elimination of cost of revenues and increases of cost of goods sold, fulfilment expenses, selling and marketing expenses and general and administrative expenses for the years ended December 31, 2016 and 2017, respectively.

(j) Reclassification of payable to Drivers from accrued expenses and other current liabilities to a separate line item due to the significance of the amount. The reclassification resulted in an increase of payable to Drivers and a decrease of accrued expenses and other current liabilities as of December 31, 2016 and 2017, respectively.

(k) Reclassification of leasehold improvement from other non-current assets to property and equipment. The reclassification resulted in an increase of property and equipment and a decrease of other non-current assets as of December 31, 2016 and 2017, respectively.

(l) Reclassification of others, net to other operating expenses, other operating income and foreign exchange gain/(loss) based on the nature of each related item. The reclassification resulted in changes of other operating expenses, other operating income, foreign exchange gain/(loss) and others, net for the years ended December 31, 2016 and 2017, respectively.

21. RESTATEMENT AND RECLASSIFICATIONS (CONTINUED)

The effects of the reclassifications and restatement for the error on the Consolidated Balance Sheets are as follows:

		As of December 31, 2016			
	Item	As previously reported RMB	Restatement adjustments RMB	Reclassification adjustments RMB	As Restated RMB
ASSETS					
Current assets:					
Cash and cash equivalents	d	2,042,896	(65,322)	—	1,977,574
Short-term investments	d	154,500	50,920	—	205,420
Accounts receivable, net		3	—	—	3
Inventories, net		2,185	—	152	2,337
Amount due from related parties	b	34,631	(1,096)	(677)	32,858
Prepayments and other current assets	d, f	25,870	14,143	525	40,538
Total current assets		**2,260,085**	**(1,355)**	**—**	**2,258,730**
Property and equipment, net	k	2,137	—	3,484	5,621
Goodwill	h	914,679	42,926	—	957,605
Intangible assets, net	c	1,264,024	60,178	—	1,324,202
Other non-current assets	f, k	7,150	259	(3,484)	3,925
Total non-current assets		**2,187,990**	**103,363**	**—**	**2,291,353**
Total assets		**4,448,075**	**102,008**	**—**	**4,550,083**
Current liabilities:					
Accounts payable		6,158	—	—	6,158
Payable to Drivers	j	—	—	160,467	160,467
Amount due to related parties		121,233	—	—	121,233
Accrued expenses and other current liabilities	j	311,512	—	(160,467)	151,045
Total current liabilities		**438,903**	**—**	**—**	**438,903**
Deferred tax liabilities		95,109	—	—	95,109
Warrant liabilities	h	48,559	149,146	—	197,705
Total non-current liabilities		**143,668**	**149,146**	**—**	**292,814**
Total liabilities		**582,571**	**149,146**	**—**	**731,717**
Total mezzanine equity		**4,422,448**	**—**	**—**	**4,422,448**
Ordinary shares		227	—	—	227
Additional paid-in capital	b, g, h	1,927,410	(100,585)	—	1,826,825
Subscription receivable		(35)	—	—	(35)
Accumulated deficit	b, c, g, h	(2,641,987)	(693)	—	(2,642,680)
Accumulated other comprehensive income	c, h	157,441	54,140	—	211,581
Total shareholders deficit		**(556,944)**	**(47,138)**	**—**	**(604,082)**
Total liabilities, mezzanine equity and shareholders' deficit		**4,448,075**	**102,008**	**—**	**4,550,083**

21. RESTATEMENT AND RECLASSIFICATIONS (CONTINUED)

	Item	As of December 31, 2017 As previously reported RMB	Restatement adjustments RMB	Reclassification adjustments RMB	As Restated RMB
ASSETS					
Current assets:					
Cash and cash equivalents	d	1,600,812	(41,275)	—	1,559,537
Restricted cash		359,731	—	—	359,731
Short-term investments	d	307,746	17,000	—	324,746
Accounts receivable, net		6,946	—	—	6,946
Inventories, net		5,886	—	—	5,886
Amount due from related parties	b	49,723	(494)	(469)	48,760
Prepayments and other current assets	d, e, f	46,884	7,051	769	54,704
Total current assets		**2,377,728**	**(17,718)**	**300**	**2,360,310**
Property and equipment, net	k	8,573	—	4,290	12,863
Goodwill	h	914,679	42,926	—	957,605
Intangible assets, net	c	1,065,421	4,281	—	1,069,702
Other non-current assets	f, k	10,099	6,103	(4,618)	11,584
Total non-current assets		**1,998,772**	**53,310**	**(328)**	**2,051,754**
Total assets		**4,376,500**	**35,592**	**(28)**	**4,412,064**
Current liabilities:					
Short-term loan		354,499	—	—	354,499
Accounts payable		7,145	—	—	7,145
Payable to Drivers	j	—	—	265,015	265,015
Amount due to related parties		38,290	—	—	38,290
Accrued expenses and other current liabilities	e, j	534,279	(11,121)	(265,043)	258,115
Total current liabilities		**934,213**	**(11,121)**	**(28)**	**923,064**
Total non-current liabilities		**80,272**	**—**	**—**	**80,272**
Total liabilities		**1,014,485**	**(11,121)**	**(28)**	**1,003,336**
Total mezzanine equity	h	**5,836,058**	**47,696**	**—**	**5,883,754**
Ordinary shares		227	—	—	227
Additional paid-in capital	b, g, h	1,601,596	(88,176)	—	1,513,420
Subscription receivable		(35)	—	—	(35)
Accumulated deficit	b, c, g, h	(4,165,913)	74,143	—	(4,091,770)
Accumulated other comprehensive income	c, h	90,082	13,050	—	103,132
Total Shareholders deficit		**(2,474,043)**	**(983)**	**—**	**(2,475,026)**
Total liabilities, mezzanine equity and shareholders' deficit		**4,376,500**	**35,592**	**(28)**	**4,412,064**

21. RESTATEMENT AND RECLASSIFICATIONS (CONTINUED)

The effects of the reclassifications and restatement for the error on the Consolidated Statements of Operations and Comprehensive Loss are as follows:

		Year ended December 31, 2016			
	Item	**As previously reported RMB**	**Restatement adjustments RMB**	**Reclassification adjustments RMB**	**As Restated RMB**
Net Revenues	a	87,614	34,287	740	122,641
Cost of revenues/goods sold	i	(44,354)	—	23,679	(20,675)
Fulfillment expenses	i	—	—	(853,533)	(853,533)
Selling, general and administrative expenses	a, b, c, g	(1,491,737)	(65,461)	1,557,198	—
Selling and marketing expenses	i	—	—	(480,973)	(480,973)
General and administrative expenses	i, g	—	—	(233,187)	(233,187)
Product development expenses	b, i	(115,333)	(37)	115,370	—
Research and development expenses	i	—	—	(129,294)	(129,294)
Other operating expenses	l	—	—	(602)	(602)
Total operating expenses		**(1,651,424)**	**(65,498)**	**(1,342)**	**(1,718,264)**
Other operating income	l	—	—	60	60
Loss from operations		**(1,563,810)**	**(31,211)**	**(542)**	**(1,595,563)**
Interest income		20,008	—	—	20,008
Others, net	l	4,976	—	(4,976)	—
Foreign exchange gain/(loss)	l	—	—	5,518	5,518
Fair value change in warrant liabilities	h	—	29,221	—	29,221
Total other income		**24,984**	**29,221**	**542**	**54,747**
Loss before income tax benefits		**(1,538,826)**	**(1,990)**	**—**	**(1,540,816)**
Income tax benefits		9,891	—	—	9,891
Net loss and net loss attributable to the Company		**(1,528,935)**	**(1,990)**	**—**	**(1,530,925)**
Accretion of convertible redeemable preferred shares	g	(285,335)	(10,474)	—	(295,809)
Net loss attributable to ordinary shareholders		**(1,814,270)**	**(12,464)**	**—**	**(1,826,734)**
Net loss		(1,528,935)	(1,990)	—	(1,530,925)
Other comprehensive income/(loss)					
Foreign currency translation adjustments	c, h	118,278	54,140	—	172,418
Total comprehensive loss		**(1,410,657)**	**52,150**	**—**	**(1,358,507)**

21. RESTATEMENT AND RECLASSIFICATIONS (CONTINUED)

	Item	As previously reported	Restatement adjustments	Reclassification adjustments	As Restated
		Year ended December 31, 2017			
		RMB	RMB	RMB	RMB
Net Revenues	a	1,778,096	(560,343)	212	1,217,965
Cost of revenues/goods sold	a, i	(1,892,879)	557,149	1,288,043	(47,687)
Fulfillment expenses	i	—	—	(1,592,664)	(1,592,664)
Selling, general and administrative expenses	a, b, c, i	(1,280,030)	(13,528)	1,293,558	—
Selling and marketing expenses	i	—	—	(723,463)	(723,463)
General and administrative expenses	i	—	—	(249,172)	(249,172)
Product development expenses	i	(175,041)	—	175,041	—
Research and development expenses	i	—	—	(191,977)	(191,977)
Other operating expenses	l	—	—	(1,173)	(1,173)
Total operating expenses		**(3,347,950)**	**543,621**	**(1,807)**	**(2,806,136)**
Other operating income	l	—	—	1,408	1,408
Loss from operations		**(1,569,854)**	**(16,722)**	**(187)**	**(1,586,763)**
Interest income		31,408	—	—	31,408
Interest expenses		(8,908)	—	—	(8,908)
Others, net	l	(4,440)	—	4,440	—
Foreign exchange gain/(loss)	l	—	—	(4,253)	(4,253)
Fair value change in foreign currency forward contracts		22,846	—	—	22,846
Fair value change in warrant liabilities	h	(9,091)	91,558	—	82,467
Total other income		**31,815**	**91,558**	**187**	**123,560**
Loss before income tax benefits		**(1,538,039)**	**74,836**	**—**	**(1,463,203)**
Income tax benefits		14,113	—	—	14,113
Net loss and net loss attributable to the Company		**(1,523,926)**	**74,836**	**—**	**(1,449,090)**
Accretion of convertible redeemable preferred shares	h	(374,902)	656	—	(374,246)
Net loss attributable to ordinary shareholders		**(1,898,828)**	**75,492**	**—**	**(1,823,336)**
Net loss		(1,523,926)	74,836	—	(1,449,090)
Other comprehensive income/(loss)					
Foreign currency translation adjustments	c, h	(67,359)	(41,090)	—	(108,449)
Total comprehensive loss		**(1,591,285)**	**33,746**	**—**	**(1,557,539)**

21. RESTATEMENT AND RECLASSIFICATIONS (CONTINUED)

The effects of the reclassifications and restatement for the error on the Consolidated Statements of Cash Flows are as follows:

	Year ended December 31, 2016			
	As previously reported RMB	Restatement adjustments RMB	Reclassification adjustments RMB	As Restated RMB
Cash flows from operating activities:				
Net loss	(1,528,935)	(1,990)	—	(1,530,925)
Adjustment to reconcile net loss to net cash in operating activities				
Depreciation and amortization	132,893	3,498	1,745	138,136
Share-based compensation	75,402	17,239	487	93,128
Foreign exchange (gain)/loss	2,843	—	(8,361)	(5,518)
Loss from disposal of property and equipment	136	—	(8)	128
Fair value change in warrant liabilities	—	(29,221)	—	(29,221)
Changes in operating assets and liabilities:				
Accounts receivable	438	—	—	438
Inventories	(1,766)	—	(152)	(1,918)
Amount due from related parties	(32,853)	—	1,772	(31,081)
Prepayments and other current assets	(16,346)	(14,143)	409	(30,080)
Other non-current assets	(2,152)	(259)	424	(1,987)
Accounts payable	3,448	—	—	3,448
Amount due to related parties	92,787	—	—	92,787
Payable to Drivers	—	—	74,566	74,566
Accrued expenses and other current liabilities	6,805	—	(75,503)	(68,698)
Deferred tax benefits	(9,891)	—	—	(9,891)
Net cash used in operating activities	**(1,277,191)**	**(24,876)**	**(4,621)**	**(1,306,688)**
Cash flows from investing activities:				
Disposal of wealth management products	—	3,572,546	—	3,572,546
Purchase of wealth management products	(154,500)	(3,007,466)	—	(3,161,966)
Purchase of property and equipment and intangible assets	(1,376)	—	(3,541)	(4,917)
Proceeds from disposal of property and equipment	74	—	—	74
Cash acquired from business combination, net of cash paid	83,204	—	—	83,204
Net cash used in investing activities	**(72,598)**	**565,080**	**(3,541)**	**488,941**
Cash flows from financing activities:				
Proceeds from issuance of convertible redeemable preferred shares, net of issuance cost	1,778,540	—	—	1,778,540
Proceeds from early exercise of share options	55	—	—	55
Cash paid for repurchase of early exercise of share options	(13,253)	—	—	(13,253)
Cash paid for repurchase of ordinary shares	(6,453)	—	61	(6,392)
Cash paid for repurchase of share options	(16,959)	—	(256)	(17,215)
Cash paid for shares issuance costs	(20,942)	10,474	(7)	(10,475)
Net cash provided by financing activities	**1,720,988**	**10,474**	**(202)**	**1,731,260**
Effect of foreign exchange rate changes on cash and cash equivalents	118,537	—	8,364	126,901
Net increase in cash and cash equivalents	489,736	550,678	—	1,040,414
Cash and cash equivalents, beginning of the year	1,553,160	(616,000)	—	937,160
Cash and cash equivalents, end of the year	2,042,896	(65,322)	—	1,977,574

21. RESTATEMENT AND RECLASSIFICATIONS (CONTINUED)

	Year ended December 31, 2017			
	As previously reported RMB	Restatement adjustments RMB	Reclassification adjustments RMB	As Restated RMB
Cash flows from operating activities:				
Net loss	(1,523,926)	74,836	—	(1,449,090)
Depreciation and amortization	199,778	5,571	3,712	209,061
Share-based compensation	49,090	11,151	600	60,841
Foreign exchange (gain)/loss	4,568	—	(315)	4,253
Fair value change in forward contract	(22,846)	—	—	(22,846)
Fair value change in warrant liabilities	9,091	(91,558)	—	(82,467)
Changes in operating assets and liabilities:				
Accounts receivable	(6,943)	—	—	(6,943)
Inventories	(3,701)	—	152	(3,549)
Amount due from related parties	(15,093)	—	(809)	(15,902)
Prepayments and other current assets	(21,015)	(4,029)	10,877	(14,167)
Other non-current assets	(949)	(5,844)	1,154	(5,639)
Accounts payable	987	—	—	987
Amount due to related parties	(82,943)	—	—	(82,943)
Payable to Drivers	—	—	104,548	104,548
Accrued expenses and other current liabilities	222,767	—	(115,698)	107,069
Deferred tax benefits	(14,837)	—	—	(14,837)
Net cash used in operating activities	**(1,205,972)**	**(9,873)**	**4,221**	**(1,211,624)**
Cash flows from investing activities:				
Disposal of wealth management products	—	2,348,604	—	2,348,604
Purchase of wealth management products	(130,400)	(2,314,684)	—	(2,445,084)
Increase in restricted cash	(379,231)	—	19,500	(359,731)
Purchase of property and equipment and intangible assets	(7,610)	—	(4,518)	(12,128)
Cash paid for cost method investment	(2,000)	—	—	(2,000)
Net cash used in investing activities	**(519,241)**	**33,920**	**14,982**	**(470,339)**
Net cash provided by financing activities	**1,338,319**	**—**	**—**	**1,338,319**
Effect of foreign exchange rate changes on cash and cash equivalents	**(55,190)**	**—**	**(19,203)**	**(74,393)**
Net increase in cash and cash equivalents	**(442,084)**	**24,047**	**—**	**(418,037)**
Cash and cash equivalents, beginning of the year	2,042,896	(65,322)	—	1,977,574
Cash and cash equivalents, end of the year	1,600,812	(41,275)	—	1,559,537

21. RESTATEMENT AND RECLASSIFICATIONS (CONTINUED)

The effects of the reclassifications and restatement for the error on the Consolidated Statements of Changes in Shareholders' Deficit for are as follows:

	Year ended December 31, 2016			
	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total Shareholders deficit
Balance at December 31, 2016, As Previously Reported	1,927,410	(2,641,987)	157,441	(556,944)
Correction adjustments	(100,585)	(693)	54,140	(47,138)
Balance at December 31, 2016, As Restated	1,826,825	(2,642,680)	211,581	(604,082)

	Year ended December 31, 2017			
	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total Shareholders deficit
Balance at December 31, 2017, As Previously Reported	1,601,596	(4,165,913)	90,082	(2,474,043)
Correction adjustments	(88,176)	74,143	13,050	(983)
Balance at December 31, 2017, As Restated	1,513,420	(4,091,770)	103,132	(2,475,026)

22. SUBSEQUENT EVENT

The subsequent events were evaluated through June 28, 2019, which is the issuance date of the audited consolidated financial statements and no significant subsequent event was identified.

Exhibit 99.2

DADA NEXUS LIMITED
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Dada Nexus Limited:

We have audited the accompanying consolidated financial statements of Dada Nexus Limited (the "Company"), its subsidiaries, its variable interest entity ("VIE") and VIE's subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2018, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' deficit, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dada Nexus Limited, its subsidiaries, its VIE and VIE's subsidiaries as of December 31, 2017 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Shanghai, the People's Republic of China

June 28, 2019

DADA NEXUS LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 and 2018
(Renminbi in thousands, except share data and otherwise noted)

	Note	As of December 31, 2017	2018
ASSETS			
Current assets:			
Cash and cash equivalents		1,559,537	2,744,006
Restricted cash		359,731	—
Short-term investments	5	324,746	721,380
Accounts receivable, net of allowance for doubtful accounts of RMB nil and 316 as of December 31, 2017 and 2018, respectively	6	6,946	30,344
Inventories, net		5,886	7,887
Amount due from related parties	18	48,760	159,363
Prepayments and other current assets	7	54,704	96,978
Total current assets		**2,360,310**	**3,759,958**
Property and equipment, net	8	12,863	22,545
Goodwill	3	957,605	957,605
Intangible assets, net	9	1,069,702	900,632
Other non-current assets		11,584	6,117
Total non-current assets		**2,051,754**	**1,886,899**
Total assets		**4,412,064**	**5,646,857**
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current liabilities (including amounts of the consolidated VIE without recourse to the Company. See Note 2.2):			
Short-term loan	10	354,499	—
Accounts payable		7,145	8,662
Payable to Drivers		265,015	280,097
Amount due to related parties	18	38,290	54,302
Accrued expenses and other current liabilities	11	258,115	229,940
Total current liabilities		**923,064**	**573,001**
Deferred tax liabilities	16	80,272	52,733
Total non-current liabilities		**80,272**	**52,733**
Total liabilities		**1,003,336**	**625,734**
Commitments and contingencies	20		

DADA NEXUS LIMITED

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2017 and 2018
(Renminbi in thousands, except share data and otherwise noted)

	Note	As of December 31, 2017	2018
MEZZANINE EQUITY	14		
Series A Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 77,000,000 shares authorised, issued and outstanding as of December 31, 2017 and 2018, respectively)		14,064	15,260
Series B Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 37,748,300 shares authorised, issued and outstanding as of December 31, 2017 and 2018, respectively)		172,655	187,316
Series C Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 44,286,448 shares authorised, issued and outstanding as of December 31, 2017 and 2018, respectively)		720,028	781,399
Series D Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 95,524,122 shares authorised, 64,001,162 shares issued and outstanding as of December 31, 2017 and 2018, respectively)		2,041,281	2,209,604
Series E Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 128,637,939 shares authorised; 93,580,586 and 93,580,586 shares issued and outstanding as of December 31, 2017 and 2018, respectively)		2,935,726	3,085,171
Series F Convertible Redeemable Preferred Shares (US$ 0.0001 par value, 116,857,842 shares authorised, issued and outstanding as of December 31, 2018)		—	3,519,261
Total Mezzanine equity		5,883,754	9,798,011
SHAREHOLDERS' DEFICIT			
Ordinary shares ($0.0001 par value, 1,616,803,191 shares authorized, 355,105,296 and 362,197,963 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	15	227	232
Additional paid-in capital		1,513,420	1,052,954
Subscription receivable		(35)	(35)
Accumulated deficit		(4,091,770)	(5,970,145)
Accumulated other comprehensive income		103,132	140,106
Total shareholders' deficit		(2,475,026)	(4,776,888)
Total liabilities, mezzanine equity and shareholders' deficit		**4,412,064**	**5,646,857**

The accompanying notes are an integral part of these consolidated financial statements.

DADA NEXUS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 and 2018
(Renminbi in thousands, except share data and otherwise noted)

	Note	Years ended December 31, 2016	2017	2018
Net Revenues		122,641	1,217,965	1,922,015
Operating expenses				
Cost of goods sold		(20,675)	(47,687)	(89,163)
Fulfilment expenses		(853,533)	(1,592,664)	(2,044,139)
Selling and marketing expenses		(480,973)	(723,463)	(1,223,345)
General and administrative expenses		(233,187)	(249,172)	(282,539)
Research and development expenses		(129,294)	(191,977)	(270,163)
Other operating expenses		(602)	(1,173)	(8,016)
Total operating expenses		**(1,718,264)**	**(2,806,136)**	**(3,917,365)**
Other operating income		60	1,408	18,875
Loss from operations		**(1,595,563)**	**(1,586,763)**	**(1,976,475)**
Other income/(expenses)				
Interest income		20,008	31,408	53,111
Interest expenses		—	(8,908)	(3,122)
Foreign exchange gain/(loss)		5,518	(4,253)	7,151
Fair value change in foreign currency forward contract		—	22,846	13,463
Fair value change in warrant liabilities		29,221	82,467	—
Total other income		**54,747**	**123,560**	**70,603**
Loss before income tax benefits		**(1,540,816)**	**(1,463,203)**	**(1,905,872)**
Income tax benefits	16	9,891	14,113	27,497
Net loss and net loss attributable to the Company		**(1,530,925)**	**(1,449,090)**	**(1,878,375)**
Accretion of convertible redeemable preferred shares	14	(295,809)	(374,246)	(511,646)
Net loss attributable to ordinary shareholders		**(1,826,734)**	**(1,823,336)**	**(2,390,021)**
Net Loss		**(1,530,925)**	**(1,449,090)**	**(1,878,375)**
Other comprehensive income/(loss)				
Foreign currency translation adjustments		172,418	(108,449)	36,974
Total comprehensive loss		**(1,358,507)**	**(1,557,539)**	**(1,841,401)**

accompanying notes are an integral part of these consolidated financial statements.

DADA NEXUS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 and 2018
(Renminbi in thousands, except share data and otherwise noted)

	Note	Ordinary shares (par value US $0.0001) Numbers of Shares	Amount	Additional paid-in capital	Subscription receivables	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' deficit
Balance as of January 1, 2016		**68,713,999**	**42**	**—**	**(35)**	**(1,073,704)**	**39,163**	**(1,034,534)**
Issuance of ordinary shares	3	286,832,885	185	2,034,434	—	—	—	2,034,619
Early exercise of stock options granted to non-employees	13	716,431		55	—	—	—	55
Repurchase of early exercised share options	13	(716,431)		(55)	—	—	—	(55)
Repurchase of ordinary shares from Co-founder	13	(441,588)		(3,730)	—	—	—	(3,730)
Share-based compensation	13	—	—	53,879	—	—	—	53,879
Net loss		—	—	—	—	(1,530,925)	—	(1,530,925)
Accretion of convertible redeemable preferred shares	14	—	—	(257,758)	—	(38,051)	—	(295,809)
Foreign currency translation adjustments		—	—	—	—	—	172,418	172,418
Balance as of December 31, 2016		**355,105,296**	**227**	**1,826,825**	**(35)**	**(2,642,680)**	**211,581**	**(604,082)**
Share-based compensation	13	—	—	60,841	—	—	—	60,841
Net loss		—	—	—	—	(1,449,090)	—	(1,449,090)
Accretion of convertible redeemable preferred shares	14	—	—	(374,246)	—	—	—	(374,246)
Foreign currency translation adjustments		—	—	—	—	—	(108,449)	(108,449)
Balance as of December 31, 2017		**355,105,296**	**227**	**1,513,420**	**(35)**	**(4,091,770)**	**103,132**	**(2,475,026)**
Issuance of ordinary shares for vested restricted share units	15	7,092,667	5	(5)	—	—	—	—
Share-based compensation	13	—	—	51,185	—	—	—	51,185
Net loss		—	—	—	—	(1,878,375)	—	(1,878,375)
Accretion and modification of convertible redeemable preferred shares	14	—	—	(511,646)	—	—	—	(511,646)
Foreign currency translation adjustments		—	—	—	—	—	36,974	36,974
Balance as of December 31, 2018		**362,197,963**	**232**	**1,052,954**	**(35)**	**(5,970,145)**	**140,106**	**(4,776,888)**

The accompanying notes are an integral part of these consolidated financial statements.

DADA NEXUS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 and 2018
(Renminbi in thousands and otherwise noted)

	Years ended December 31,		
	2016	2017	2018
Cash flows from operating activities:			
Net loss	(1,530,925)	(1,449,090)	(1,878,375)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	138,136	209,061	212,241
Share-based compensation	93,128	60,841	51,185
Foreign exchange (gain)/loss	(5,518)	4,253	(7,151)
Loss from disposal of property and equipment	128	—	3,639
Allowance for doubtful accounts	—	—	316
Valuation allowance for inventories	—	—	1,632
Impairment provision for other non-current assets	—	—	5,432
Impairment provision for property and equipment	—	—	8,481
Fair value change in foreign currency forward contract	—	(22,846)	(13,463)
Fair value change in warrant liabilities	(29,221)	(82,467)	—
Changes in operating assets and liabilities:			
Accounts receivable	438	(6,943)	(23,714)
Inventories	(1,918)	(3,549)	(3,634)
Amount due from related parties	(31,081)	(15,902)	(110,603)
Prepayments and other current assets	(30,080)	(14,167)	(42,273)
Other non-current assets	(1,987)	(5,639)	35
Accounts payable	3,448	987	1,516
Amount due to related parties	92,787	(82,943)	16,012
Payable to Drivers	74,566	104,548	15,082
Accrued expenses and other current liabilities	(68,698)	107,069	(28,174)
Deferred tax liabilities	(9,891)	(14,837)	(27,539)
Net cash used in operating activities	**(1,306,688)**	**(1,211,624)**	**(1,819,355)**
Cash flows from investing activities:			
Disposal of wealth management product	3,572,546	2,348,604	7,489,577
Purchase of wealth management product	(3,161,966)	(2,445,084)	(7,909,057)
Proceeds from disposal of foreign currency forward contract	—	—	36,310
Purchase of property and equipment and intangible assets	(4,917)	(12,128)	(32,861)
Cash paid for purchase of other non-current assets	—	(2,000)	—
Proceeds from disposal of property and equipment	74	—	649
Cash acquired from business combination, net of cash paid (Note 3)	83,204	—	—
Net cash provided by/(used in) investing activities	**488,941**	**(110,608)**	**(415,382)**
Cash flows from financing activities:			
Proceeds from (Cash paid for) short-term loan	—	354,499	(354,499)
Proceeds from issuance of convertible redeemable preferred shares	1,778,540	983,820	3,412,300
Proceeds from early exercise of share options	55	—	—
Cash paid for repurchase of early exercised share options	(13,253)	—	—
Cash paid for repurchase of ordinary shares	(6,392)	—	—
Cash paid for repurchase of share options	(17,215)	—	—
Cash paid for share issuance costs	(10,475)	—	(9,689)
Net cash provided by financing activities	**1,731,260**	**1,338,319**	**3,048,112**
Effect of foreign exchange rate changes on cash and cash equivalents	**126,901**	**(74,393)**	**11,363**
Net increase (decrease) in cash and cash equivalents	**1,040,414**	**(58,306)**	**824,738**
Cash and cash equivalents and restricted cash, beginning of the year	937,160	1,977,574	1,919,268
Cash and cash equivalents and restricted cash, end of the year	1,977,574	1,919,268	2,744,006

DADA NEXUS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 and 2018
(Renminbi in thousands and otherwise noted)

The following table provides a reconciliation of cash and cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statement of Cash Flows.

	As of December 31,		
	2016	2017	2018
Cash and cash equivalents	1,977,574	1,559,537	2,744,006
Restricted cash	—	359,731	—
Total cash, cash equivalents, and restricted cash	**1,977,574**	**1,919,268**	**2,744,006**

	Years ended December 31,		
	2016	2017	2018
Supplemental disclosure for cash flow information			
Cash paid for interest	—	5,514	6,516
Cash paid for income taxes	—	724	42
Supplemental disclosure of non-cash investing and financing activities:			
Accretion of convertible redeemable preferred shares	295,809	374,246	511,646
Payable in connection with the repurchase of early exercised share options of non-employees	6,174	—	—

See Note 3 for the non-cash investing activities related to the JDDJ business acquisition occurred on April 26, 2016.

The accompanying notes are an integral part of these consolidated financial statements.

(All amounts in thousands, except share and per share data)

1. ORGANIZATION AND NATURE OF OPERATIONS

Description of Business

Dada Nexus Limited (the “Company”) was incorporated under the laws of the Cayman Islands on July 8, 2014. The Company through its wholly-owned subsidiaries, variable interest entity (“VIE”) and VIE’s subsidiaries (collectively, the “Group”) primarily provides comprehensive logistic solution service, on-demand logistic platform service and online marketplace platform service to its customers through its mobile platforms, websites and mini programs. The Group’s principal operations and geographic markets are in the People’s Republic of China (“PRC”).

As of December 31, 2018, the Company’s major subsidiaries and consolidated VIE are as follows:

Name of Company	Place of incorporation	Date of incorporation/acquisition	Percentage of direct or indirect economic ownership
Subsidiaries			
Dada Wisdom (HK) Limited (“Dada Wisdom”)	Hong Kong	July 24, 2014	100%
Dada Glory Network Technology Ltd. (“Dada Glory”)	PRC	November 7, 2014	100%
Shanghai JD Daojia Yuanxin Information Technology Co., Ltd. (“Yuanxin”)	PRC	April 26, 2016	100%
VIE			
Shanghai Qusheng Internet Co. Ltd. (“Qusheng”)	PRC	July 2, 2014	100%

2. PRINCIPAL ACCOUNTING POLICIES

2.1 *Basis of presentation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for the years presented.

2.2 *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIE and VIE's subsidiaries in which it has a controlling financial interest. The results of the subsidiaries, VIE and VIE's subsidiaries are consolidated from the date on which the Company obtained control and continue to be consolidated until the date that such control ceases. A controlling financial interest is typically determined when a company holds a majority of the voting equity interest in an entity.

The Group has adopted the guidance codified in ASC 810, Consolidations ("ASC 810") on accounting for VIE, which requires certain variable interest entity to be consolidated by the primary beneficiary in which it has a controlling financial interest. A VIE is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support; (b) as a group, the holders of the equity investment at risk lack the ability to make certain decisions, the obligation to absorb expected losses or the right to receive expected residual returns, or (c) an equity investor has voting rights that are disproportionate to its economic interest and substantially all of the entity's activities are on behalf of the investor.

All intercompany balances and transactions between the Group, its subsidiaries, VIE and VIE's subsidiaries have been eliminated in consolidation.

VIE Arrangements

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates its websites and other restricted businesses in the PRC through certain PRC domestic companies, whose equity interests are held by certain management members and shareholders of the Group ("Nominee Shareholders"). On November 14, 2014, Dada Glory entered into a series of contractual agreements with Qusheng and its shareholders. The following is a summary of the agreements which allow the Dada Glory to exercise effective control over Qusheng:

Share Pledge Agreement

Under the equity interest pledge agreement entered between Dada Glory and the shareholders of Qusheng, the shareholders pledged all of their equity interests in Qusheng to guarantee their performance of their obligations under the Exclusive Business Cooperation Agreement. If the shareholders of Qusheng breach their contractual obligations under the Exclusive Business Cooperation Agreement, Dada Glory, as the pledgee, will have the right to dispose the pledged equity pursuant to the PRC law. The shareholders of Qusheng have not placed any security equity interests or allowed any encumbrance on the pledged equity interests. The equity interest pledge agreement remains effective until the shareholders of Qusheng have fully performed their obligations and repaid their consulting and service fees by the shareholders of Qusheng under the Exclusive Business Cooperation Agreement. During the equity pledge period, Dada Glory is entitled to all dividends and other distributions generated by Qusheng.

Exclusive Option Agreement

Pursuant to the exclusive option agreement entered into among Dada Glory, Qusheng and Qusheng's shareholders, Qusheng's shareholders irrevocably grant Dada Glory or its designated representatives an exclusive option to purchase, to the extent permitted under PRC law, all or part of the equity interest of Qusheng. The exercise price shall be the lowest price as permitted by the applicable PRC law at the time of the transfer of the optioned interest. The option term remains effective for a term of 10 years and can be extended at Dada Glory's election. Without Dada Glory's written consent, Qusheng and its shareholders may not sell, transfer, mortgage, or otherwise dispose of in any manner any assets, or legal or beneficial interest in the business or revenues, or allow the encumbrance thereon of any security interest.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 *Basis of consolidation (continued)*

VIE Arrangements (continued)

Exclusive Business Cooperation Agreement

Under the Exclusive Business Cooperation Agreement entered between Dada Glory and Qusheng, Qusheng appoints Dada Glory as its exclusive services provider with complete business support and technical and consulting services. Qusheng shall not accept any consultations or services provided by any third party, and shall not cooperate with any third party. Qusheng agrees to pay Dada Glory a monthly service fee for services performed, and the monthly service fee shall be 100% of the net income of Qusheng on a monthly basis. Unless earlier termination of this agreement by Dada Glory or relevant agreements separately executed between the parties, the term of this agreement shall be 10 years and extended term shall be determined by Dada Glory's election prior to the expiration thereof.

Power of Attorney

Pursuant to the irrevocable power of attorney, each of the Nominee Shareholders to exercise all shareholder rights under PRC law and the relevant articles of association, including but not limited to, proposing, convening and attending shareholders' meetings of Qusheng, voting on their behalf on all matters requiring shareholder approval, sale or transfer or pledging or disposing of all or part of the Nominee Shareholders' equity interests, and designating and appointing the senior management of Qusheng. Each power of attorney shall be irrevocably and continuously valid and effective from the date of its execution, unless Dada Glory issues adverse instructions in writing. Each Nominee Shareholders waive all the rights which have been authorized to Dada Glory under each power of attorney, and should not exercise such rights by themselves.

The irrevocable power of attorney has conveyed all shareholder rights held by the VIE' shareholders to Dada Glory, including the right to appoint board members who nominate the general managers of the VIE to conduct day-to-day management of the VIE's businesses, and to approve significant transactions of the VIE. In addition, the exclusive option agreements provide Dada Glory with a substantive kick-out right of the VIE's shareholders through an exclusive option to purchase all or any part of the shareholders' equity interest in the VIE at the lowest price permitted under PRC laws then in effect. In addition, through the exclusive support services agreements, the Company established the right to receive benefits from the VIE that could potentially be significant to the VIE, and through the equity pledge agreement, the Company has, in substance, an obligation to absorb losses of the VIE that could potentially be significant to the VIE.

Risks in relation to the VIE structure

The Company believes that the contractual arrangements amongst Dada Glory, Qusheng and their respective shareholders are in compliance with PRC law and are legally enforceable. The shareholders of Qusheng are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, Qusheng and their shareholders may fail to take certain actions required for the Company's business or to follow the Company's instructions despite their contractual obligations to do so. Furthermore, if Qusheng or their shareholders do not act in the best interests of the Company under the contractual arrangements and any dispute relating to these contractual arrangements remains unresolved, the Company will have to enforce its rights under these contractual arrangements through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. All of these contractual arrangements are governed by PRC law and provided for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. As a result, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements, which may make it difficult to exert effective control over Qusheng, and its ability to conduct the Company's business may be adversely affected.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 *Basis of consolidation (continued)*

VIE Arrangements (continued)

The following amounts and balances of the consolidated VIE were included in the Group's consolidated financial statements after the elimination of intercompany balances and transactions:

	As of December 31,	
	2017	2018
	RMB	RMB
Cash and cash equivalents	953	28
Short-term investments	1,000	590
Accounts receivable, net	1,574	4,808
Prepayments and other current assets	1,342	2,394
Property and equipment, net	60	7
Intangible assets, net	105	107
Other non-current assets	1	—
Total assets	5,035	7,934
Amount due to related parties	32	32
Accrued expenses and other current liabilities	2,512	2,580
Total liabilities	2,544	2,612

	Years ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Net Revenues	—	9,843	6,621
Net loss	(21,362)	(24,915)	(15,263)
Net cash used in operating activities	(4,713)	(974)	(925)
Net cash used in investing activities	(197)	—	—
Net cash provided by financing activities	—	1,763	—

The VIE contributed approximately nil, 0.8% and 0.3% of the Group's consolidated net revenues for the years ended December 31, 2016, 2017 and 2018, respectively. As of December 31, 2017 and 2018, the VIE accounted for an aggregate of approximately 0.1% and 0.1%, respectively, of the consolidated total assets, and approximately 0.3% and 0.4%, respectively, of the consolidated total liabilities.

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Group or its subsidiaries to provide financial support to the VIE. However, if the VIE was ever to need financial support, the Group or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to its VIE through loans to the shareholders of the VIE or entrustment loans to the VIE.

The Group believes that there are no assets held in the consolidated VIE that can be used only to settle obligations of the VIE, except for registered capital and the PRC statutory reserves. As the consolidated VIE is incorporated as a limited liability company under the PRC Company Law, creditors of the VIE do not have recourse to the general credit of the Group for any of the liabilities of the consolidated VIE.

Relevant PRC laws and regulations restrict the VIE from transferring a portion of their net assets, equivalent to the balance of their statutory reserve and their share capital, to the Group in the form of loans and advances or cash dividends.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.3 *Use of estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets, long lived assets and liabilities at the dates of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, the Group's management reviews these estimates based on information that is currently available. Changes in facts and circumstances may cause the Group to revise its estimates. Significant accounting estimates reflected in the Group's financial statements mainly include the useful lives of property and equipment and intangible assets, assumptions used to measure the impairment of goodwill, property and equipment and intangible assets, assumptions impacting the valuation of ordinary shares, share options and warrant liabilities, the purchase price allocation in relation to business combination, and realization of deferred tax assets.

2.4 *Functional currency and foreign currency translation*

The Group uses Renminbi ("RMB") as its reporting currency. The functional currency of the Company is the United States dollar ("$", "US$" or "USD"). The functional currency of the Company's subsidiaries, VIE and VIE's subsidiaries is RMB or USD as determined based on the economic facts and circumstances.

Transactions denominated in other than the functional currencies are re-measured into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are re-measured at the balance sheet date exchange rate. The resulting exchange differences are included in the comprehensive loss.

Assets and liabilities of the Company and its subsidiaries with functional currency other than RMB are translated into RMB at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the fiscal year. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of other comprehensive loss.

2.5 *Cash and cash equivalents*

Cash and cash equivalents primarily consist of cash on hand and cash in bank which is highly liquid and unrestricted as to withdrawal and use.

2.6 *Restricted cash*

The Group's restricted cash mainly represents the deposits pledged for short-term bank loans.

2.7 *Short-term investments*

Short-term investments include (i) wealth management products issued by commercial banks or other financial institutions with variable interest rates indexed to the performance of underlying assets within one year; and (ii) a foreign currency forward contract sold by a commercial bank. These investments are stated at fair value. Changes in fair value of wealth management products is included in interest income and fair value changes of the foreign currency forward contracts are presented in "Fair value change in foreign currency forward contract".

2.8 *Accounts receivable, net*

Accounts receivable mainly consists of amount due from the Group's customers, which are recorded net of allowance for doubtful accounts. The Group performs ongoing credit evaluation of its customers, and assesses allowance for doubtful accounts based upon expected collectability based on the age of the receivables and factors surrounding the credit risk of specific customers.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.9 *Inventories, net*

Inventories, consisting of products available for sale, are stated at the lower of cost or market value. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated market value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. Provisions of RMB1,632 were recorded in the cost of goods sold in the Consolidated Statements of Operations and Comprehensive Loss for the year ended December 31, 2018.

2.10 *Property and equipment, net*

Property and equipment is stated at cost less accumulated depreciation and impairment. Property and equipment is depreciated at rates sufficient to write off its costs less impairment and residual value, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Category	Estimated useful lives
Computer equipment	3 years
Office facilities	3-5 years
Vehicles	8 years
Software	3-5 years
Leasehold improvement	Over the shorter of the expected useful life or the lease term

Repairs and maintenance costs are charged to operating expenses as incurred, whereas the costs of renewals and betterment that extends the useful lives of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the costs, accumulated depreciation and impairment with any resulting gain or loss recognized in the other operation income or expenses of Consolidated Statements of Operations and Comprehensive Loss.

2.11 *Business combination*

U.S. GAAP requires that all business combinations to be accounted for under the purchase method. Since its incorporation, the Group adopted ASC 805, “Business Combinations”. Following this adoption, the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the Consolidated Statements of Operations and Comprehensive Loss.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgments. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted life cycle and forecasted cash flows over that period. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

2.12 Intangible assets, net

Intangible assets purchased are recognized and measured at cost upon acquisition and intangible assets arising from business combination are recognized and measured at fair value upon acquisition. The Group performs valuation of the intangible assets arising from business combination to determine the fair value to be assigned to each asset acquired. The acquired intangible assets are recognized and measured at fair value and are amortized using the straight-line approach over the estimated economic useful lives of the assets.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.13 Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Group's acquisitions of JDDJ business. Goodwill is not amortized but is reviewed at least annually for impairment or earlier, if any indication of impairment exists.

The Group adopted FASB revised guidance on "Testing of Goodwill for Impairment". Under this guidance, the Group has the option to choose whether it will apply the qualitative assessment first and then the quantitative assessment, if necessary, or to apply the quantitative assessment directly. For reporting units applying a qualitative assessment first, the Group starts the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Group determines that it is more likely not the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of goodwill with its carrying value. For reporting units directly applying a quantitative assessment, the Group performs the goodwill impairment test by quantitatively comparing the fair values of those reporting units to their carrying amounts.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. The Group performs the annual goodwill impairment assessment on December 31 and no goodwill impairment was identified as of December 31, 2016, 2017 and 2018 (Note 3).

2.14 Other non-current assets

Other non-current assets mainly consist of long-term lease deposits, a convertible loan to a private company, and equity investment without a readily determinable fair value. Beginning on January 1, 2018, the Group's equity investments without readily determinable fair values, which do not qualify for NAV practical expedient and over which the Group does not have the ability to exercise significant influence through the investments in common stock or in substance common stock, are accounted for under the measurement alternative upon the adoption of Accounting Standards Update ('ASU") 2016-01 (the "Measurement Alternative"). Under the Measurement Alternative, the carrying value is measured at cost, less any impairment, plus and minus changes resulting from observable price changes in orderly transactions for identical or similar investments. The Group recognized RMB3,432 and RMB2,000 of impairment losses to write off the loan receivable and equity investment without a readily determinable fair value, respectively, for the year ended December 31, 2018.

2.15 *Warrant liabilities*

Warrants classified as liabilities are initially recorded at fair value with gains and losses arising from changes in fair value recognized in the Consolidated Statements of Operations and Comprehensive Loss during the period in which such instruments are outstanding.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 *Fair value measurement*

Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it transacts and considers assumptions that market participants use when pricing the asset or liability.

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable, market-based inputs, other than quoted prices, in active markets for identical assets or liabilities.

Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The fair value guidance describes three main approaches to measure the fair value of assets and liabilities: (1) market approach, (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities.

The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 *Revenue recognition*

The Group derives its revenues principally from merchants' use of the Group's core platforms in connection with online marketplace platform services, on-demand logistic platform services, and comprehensive logistic solution services. Revenue is stated net of value added tax ("VAT"), discounts and return allowances.

On January 1, 2018, using the modified retrospective method, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," including related amendments and implementation guidance within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 (collectively, including ASU 2014-09, "ASC 606"), issued by the Financial Accounting Standards Board ("FASB").

The impact of adopting the new revenue standard was not material to the consolidated financial statements and there was no adjustment to the beginning accumulated deficit on January 1, 2018. Results for reporting period beginning on January 1, 2018 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with ASC 605.

Platform Service

On-demand Logistic Platform Service

The Group provides on-demand logistic platform services through its self-developed on-demand logistics platform ("Dada Platform") where the Group assists the customer, a registered merchant, in finding a deliveryman ("Driver") to complete a delivery requested by the customer. The Group acts as an agent as it is not responsible for fulfilling the promise to provide the delivery service, and does not have the ability to control the related services. The service fee is the difference between the amount paid by a customer based on an upfront quoted fare and the amount earned by a Driver based on expected time, distance and other factors. The Group earns a variable amount from the customers and may record a loss from a transaction when an up-front quoted fare offered to a customer is less than the amount the Group is committed to pay the Driver. The service fee is recognized on a net basis at the point of delivery of merchandise. The loss of a transaction is recorded in fulfilment expenses in the Consolidated Statements of Operations and Comprehensive Loss.

JDDJ Marketplace Platform Service

The Group provides JDDJ marketplace platform services on its Online-to-Offline ("O2O") ecommerce grocery platform ("JDDJ Platform"). The service revenues primarily consist of commission fees charged to third-party merchants for participating in the Group's online marketplace, where the Group acts as an agent and its performance obligation is to facilitate the merchants' online sales of their goods through JDDJ Platform. It is not primarily obligated to the consumers, does not take inventory risk, and does not have latitude over pricing of the merchandise. Upon successful sales, the Group charges the merchant a fixed rate commission fee based on the sales amount. Commission fee revenues are recognized on a net basis at the point of delivery of products.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 *Revenue recognition (Continued)*

Comprehensive Logistic Solution Services

The Group provides comprehensive logistic solution services to merchants on its online marketplace and business customers that do not sell products on its online marketplace by utilizing the Group's network of registered Drivers to fulfil the delivery service. The Group has determined that it acts as a principal in this type of services as the Group is responsible for identifying and directing the Driver to deliver the merchandise. The Group therefore controls the service before the merchandise are transferred to the recipient, is primarily responsible for fulfilling the obligation to the customer and also has pricing discretion. Revenues resulting from these services are recognized on a gross basis at a fixed rate or a pre-determined amount for each completed delivery, when merchandise are arrived at designated place or packages are delivered to the recipients, with the amounts paid to the Drivers recorded in fulfillment expenses.

Goods Sales

The Group operates its own e-commerce business and sells delivery equipment and other merchandise. The Group also sells merchandise through unmanned smart mini-stores. Revenue is recognized on a gross basis as the Group is acting as a principal in these transactions, is responsible for fulfilling the promise to provide the specified merchandise and also has pricing discretion . The Group recognizes revenues net of discounts and return allowances when the goods are delivered to the customers.

Others

Other services primarily comprise (i) warehouse fulfilment service to business customers, (ii) online marketing services to merchants or brand customers for promotion of their products or brands on JDDJ marketplace platform and (iii) service fees received from insurance companies for arranging life insurance for Drivers. Revenue is recognised when service is rendered.

Incentive programs

Customer incentives

The Group offers various incentive programs to merchants and business customers in the form of coupons or volume-based discounts in the provision of on-demand logistics platform service and comprehensive logistics solution service that are recorded as reduction of revenue as the Group does not receive a distinct good or service in consideration or cannot reasonably estimate the fair value of goods or services received.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 *Revenue recognition (Continued)*

Driver incentives

The Group offers various incentive programs to Drivers such as volume-based incentives. Since Drivers are not the Group's customers, incentives are accounted for as fulfillment expenses. For the years ended December 31, 2016, 2017 and 2018, incentives to Drivers recorded as fulfilment expenses were RMB74,745, RMB127,392 and RMB223,664, respectively.

Consumer incentives

The consumer incentives are offered to promote the Group's platform in the form of promotion coupon on the JDDJ Platform, which are valid only during a limited period of time. These incentives are provided at the Group's discretion and are not contractually required by the merchants. These incentives also do not reduce the overall pricing of the services provided by the Group. As the Group has no performance obligation to consumers who are not the Group's customers, incentives to consumers are recognized as selling and marketing expenses. For the years ended December 31, 2016, 2017 and 2018, consumer incentives that were recorded as selling and marketing expenses were RMB117,961 RMB362,137 and RMB782,479, respectively.

All the incentives granted can be categorized into 1) incentives granted concurrent with a purchase transaction and 2) incentives granted not concurrent with a purchase transaction. When the incentive is granted concurrent with a purchase transaction, expenses or reduction of revenue are accrued as the related transactions are recorded. When the incentive is not granted concurrent with a purchase transaction, expenses or reduction of revenue are recognized at the time of coupon redemption.

Disaggregation of revenues

For the years ended December 31, 2016, 2017 and 2018, all of the Group's revenues were generated in the PRC. The disaggregated revenues by types were as follows:

	Years ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Comprehensive logistic solution services	30,640	933,606	1,351,805
Platform services	54,049	133,582	278,378
Sales of goods	20,506	41,924	81,899
Others	17,446	108,853	209,933
Total revenues	**122,641**	**1,217,965**	**1,922,015**

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 *Revenue recognition (Continued)*

Contract balances

The remaining unsatisfied performance obligation as of December 31, 2017 and 2018 was immaterial.

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represents amounts invoiced and revenues recognized prior to invoicing when the Group has satisfied its performance obligation and has the unconditional right to payment.

The Group sometimes receives advance payments from consumers before the service is rendered, which is recorded as advance from merchants included in the accrued expenses and other current liabilities on the Consolidated Balance Sheets. The balance as of December 31, 2017 and 2018 was immaterial.

Practical expedients and exemptions

The Group elects not to disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less (ii) contracts for which the Group recognizes revenues at the amount to which it has the right to invoice for services performed and (iii) contracts with variable consideration related to wholly unsatisfied performance obligations.

2.18 *Cost of goods sold*

Cost of goods sold primarily consist of purchase price of merchandise, inventory provision and surcharge and sales taxes.

2.19 *Fulfilment expenses*

Fulfilment expenses primarily consist of (i) Drivers' remuneration to fulfil the Group's logistics orders from merchants, (ii) expenses incurred in operating the Group's customer service centers, (iii) expenses charged by third-party couriers for logistics service and third-party customer service, (iv) transaction fees charged by third-party payment platform and (v) packaging cost as well as other fulfilment expenses directly attributed to the Group's principal operations.

2.20 *Selling and marketing expenses*

Selling and marketing expenses primarily consist of incentive payments to consumers, advertising and promotion expenses, payroll and related expenses for employees involved in selling and marketing functions in the city stations, as well as the associated expenses of facilities and equipment, such as depreciation expenses, rental and others. The advertising and market promotion expenses amounted to RMB47,217, RMB156,317 and RMB118,829 for the years ended December 31, 2016, 2017 and 2018, respectively.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.21 *Research and development expenses*

Research and development expenses primarily consist of technology infrastructure expenses, payroll and related expenses for employees involved in platform development and internal system support, charges for the usage of the server and computer equipment, and editorial content.

2.22 *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing group are accounted for as operating leases. Payments made under operating leases net of any incentives received by the Group from the leasing group are charged to the Consolidated Statements of Operations and Comprehensive Loss on a straight-line basis over the leasing periods.

2.23 *Share-based compensation*

The Group accounts for share options granted to employees in accordance with ASC 718, "Stock Compensation". The Group grants options and restricted share units to the Group's employees, directors, and consultants. In accordance with the guidance, the Group determines whether a share option should be classified and accounted for as a liability award or an equity award.

Options and restricted share units granted to the employees, including the directors, vest upon satisfaction of a service condition, which is generally satisfied over four years and are measured at the grant date. Options granted to non-employees with a service condition are accounted for based on the fair value of the equity instrument issued, as this has been determined to be more reliably measurable. The Group has accounted for equity instruments issued to non-employees in accordance with the provisions of ASC 718 and ASC subtopic 505-50, "Equity: Equity based Payments to Non-Employees". The fair value of each option granted to non-employees will be estimated on the date of grant using the same option valuation model used for options granted to employees. Options granted to non-employees of the Group are re-measured each period end in accordance with ASC 505. The final measurement date of the fair value of the equity instrument issued is the date on which the non-employee's performance is completed.

Additionally, the Group's incentive plan provides an exercisability clause where employees or non-employees can only exercise vested options upon the occurrence of the event that the Group's ordinary shares are publicly traded. Options for which the service condition has been satisfied are forfeited should employment terminate prior to the occurrence of an exercisable event, which substantially creates a performance condition. The satisfaction of the performance condition becomes probable upon completion of the Group's initial public offering and therefore, the Group has not recorded any compensation expenses and will record the cumulative share-based compensation expenses for these options when it completes the initial public offering.

According to ASC 718, a change in any of the terms or conditions of equity-based awards shall be accounted for as a modification of the award. Therefore, the Group calculates incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified. For vested options, the Group would recognize incremental compensation cost on the date of modification and for unvested options, the Group would recognize, prospectively and over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award.

2.24 *Government grants*

Government grants include cash subsidies received by the Group's entities in the PRC from local governments as incentives for operating business in certain local districts. Such subsidies allow the Group full discretion in utilizing the funds and are used by the Group for general corporate purpose. Cash subsidies are included in other operating income and recognized when received.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.25 *Taxation*

Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements, net operating loss carry forwards and credits. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided in accordance with the laws of the relevant taxing authorities. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in which temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the Consolidated Statements of Operations and Comprehensive Loss in the period of the enactment of the change.

2.26 *Comprehensive loss*

Comprehensive loss is defined as the change in equity of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Comprehensive loss is reported in the Consolidated Statements of Operations and Comprehensive Loss. Accumulated other comprehensive loss, as presented on the accompanying Consolidated Balance Sheets, consists of accumulated foreign currency translation adjustments.

2.27 *Recent accounting pronouncements*

New accounting pronouncements recently adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Group adopted the new revenue standard beginning January 1, 2018 using the modified retrospective transition method. The impact of adopting this ASU was not material to the consolidated financial statements and there was no adjustment to the beginning accumulated deficit on January 1, 2018 (Note 2).

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Under the new ASC, entities no longer use the cost method of accounting as it was applied before and the new ASC requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, a company can elect to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer (the “measurement alternative”). The Group adopted this ASU beginning January 1, 2018, which has no material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Group adopted this ASU beginning January 1, 2018, which has no material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows, Restricted Cash, which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The adoption of this accounting pronouncement impacts the presentation of restricted cash in the Group’s Consolidated Statements of Cash Flows. The Group adopted this ASU beginning January 1, 2018 in accordance with the retrospective transition method, including restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statements of Cash Flows.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.27 *Recent accounting pronouncements (Continued)*

New accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on balance sheet and disclose key information about lease arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with terms of longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The standard is effective on January 1, 2019, with early adoption permitted. In July 2018, the FASB issued an update that provided an additional transition option that allows companies to continue applying the guidance under the lease standard in effect at that time in the comparative periods presented in the consolidated financial statements. Companies that elect this option would record a cumulative-effect adjustment to the opening balance of retained earnings on the date of adoption. The Group will elect this optional transition method. As of December 31, 2018, the Group has RMB122,260 of undiscounted future minimum operating lease commitments that are not recognized on its consolidated balance sheets (Note 20). Therefore, the Group would expect changes to its Consolidated Balance Sheets for the recognition of these and any additional leases entered into in the future upon adoption.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350), which simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for an entity's annual or any interim goodwill impairments tests in fiscal years beginning after December 15, 2019 and will require adoption on a prospective basis. The Group is currently in the process of evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718), which simplifies the accounting for non-employee share-based payment transactions by expanding the scope of ASC Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from non-employees. Under the new standard, most of the guidance on stock compensation payments to non-employees would be aligned with the requirements for share-based payments granted to employees. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods, with early adoption permitted. The Group is currently in the process of evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Group does not expect the adoption of this ASU has a significant impact on its consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810), which amends two aspects of the related-party guidance in ASC 810. Specifically, the ASU (1) adds an elective private-company scope exception to the variable interest entity guidance for entities under common control, and (2) amends the guidance for determining whether a decision-making fee is a variable interest. The amendments require organizations to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety (as currently required in GAAP). Therefore, these amendments likely will result in more decision makers not consolidating VIEs. For entities other than private companies, ASU 2018-17 is effective for fiscal years beginning after December 15, 2019, including interim periods therein. For private companies, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for all entities. This guidance will be adopted using a retrospective approach. The Group does not expect the adoption of this ASU has a significant impact on its consolidated financial statements.

3. BUSINESS COMBINATION

On April 26, 2016, the Group and JD.com, Inc. ("JD") entered into an agreement to acquire JDDJ Business, an online marketplace where registered merchants offers local retailers' products to its end consumers. In connection with the acquisition, the Company also entered into a Business Cooperation Agreement ("BCA") and a Non-Compete Agreement ("NCA") with JD.

The consideration for the acquisition of JDDJ business, BCA and NCA includes 286,832,885 ordinary shares of the Company, 46,743,137 Series E Preferred Shares and a warrant to subscribe 35,151,665 Series E Preferred Shares within two years with a pre-determined purchase price. The acquisition-related costs amounted to RMB 10,474 was recorded in general and administrative expenses. The transactions were consummated on April 26, 2016.

The acquisition of JDDJ business was accounted for as a business combination and the results of operations of the JDDJ from the acquisition date have been included in the Group's consolidated financial statements from April 26, 2016. BCA and NCA were acquired in connection with the acquisition of JDDJ Business. The identifiable intangible assets acquired are amortized on a straight-line basis over the respective useful lives. The Group made estimates and judgments in determining the fair value of JDDJ business, NCA and BCA with assistance from an independent valuation firm.

The purchase price allocation is as follows:

	Amount RMB
Fair value of the consideration	
Ordinary shares issued	2,034,619
Preferred shares issued	1,291,780
Warrant liabilities (Note 12)	214,286
Total consideration	**3,540,685**

	As of April 26, 2016 RMB	Amortization Years
Fair value of NCA	541,400	7
Fair value of BCA	434,900	7
JDDJ Business		
Cash and cash equivalents	1,374,984	
Other assets acquired	1,124	
Payables to marketplace merchants	(19,946)	
Amount due to related parties	(28,446)	
Accrued expenses and other current liabilities	(35,936)	
Identifiable intangible assets - Technology	96,000	3.7
Identifiable intangible assets - Trademark and Domain Name	324,000	9.7
Deferred tax liabilities for identifiable intangible assets	(105,000)	
Goodwill	957,605	
Total assets received and liabilities assumed	**3,540,685**	

3. BUSINESS COMBINATION (CONTINUED)

Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purpose. Goodwill arising from this acquisition was attributable to the synergies expected from the combined business.

The following table summarizes unaudited pro forma results of operations for the years ended December 31, 2016 assuming that the acquisition occurred as of January 1, 2016. The pro forma results have been prepared for comparative purpose only based on management's best estimate and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of the beginning of period:

	Year ended December 31, 2016 Unaudited RMB
Pro forma revenue	148,363
Pro forma loss from operations	(1,802,522)
Pro forma net loss	(1,760,939)

4. FAIR VALUE MEASUREMENTS

The Group's financial instruments include cash and cash equivalent, restricted cash, receivables, payables, prepayments and other current assets, short-term loan, amount due from and due to related parties and accrued expenses and other current liabilities. The carrying amounts of these short-term financial instruments approximate their fair value due to their short-term nature. The Group wrote off the convertible loan to a private company of RMB3,432 included in other noncurrent assets during 2018 due to the bankruptcy of the private company.

As of December 31, 2017 and 2018, information about inputs into the fair value measurement of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

			Fair Value Measurements at Reporting Date Using		
Years Ended December 31,	Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017	Wealth management products	301,900	—	301,900	—
2017	Foreign currency forward contract	22,846	—	22,846	—
2018	Wealth management products	721,380	—	721,380	—

The Group measures certain assets, including the equity investment without readily determinable fair value, at fair value on a nonrecurring basis when it is deemed to be impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include management judgments, future performance projections, etc. During the years ended December 31, 2017 and 2018, the Group recognized an impairment of equity investment without readily determinable fair value in the amount of nil and RMB2,000, respectively.

Certain non-financial assets are measured at fair value on a nonrecurring basis, including property, plant, and equipment, goodwill and intangible assets and they are recorded at fair value only when impairment is recognized by applying unobservable inputs such as forecasted financial performance, discount rate, etc. to the discounted cash flow valuation methodology that are significant to the measurement of the fair value of these assets. During the years ended December 31, 2016, 2017 and 2018, the Group recognized impairment of property and equipment in the amount of nil, nil and RMB8,481, respectively (Note 8).

See Note 12 for the fair value measurement of warrant liabilities.

5. SHORT-TERM INVESTMENT

	As of December 31, 2017	As of December 31, 2018
Wealth management products	301,900	721,380
Foreign currency forward	22,846	—
Total	**324,746**	**721,380**

The Group entered into a foreign currency forward contract on March 27, 2017 with a commercial bank to sell its time deposits denominated in USD for RMB at a fixed exchange rate of 7.03 on March 23, 2018 with the notional amount of USD52,380. The Group incurred fair value changes of RMB22,846 and RMB13,463 for the years ended December 31, 2017 and 2018, respectively and settled it on March 23, 2018 with the carrying amount.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable and the related bad debt provision as of December 31, 2017 and 2018 are as follows:

	As of December 31, 2017	As of December 31, 2018
Accounts receivable	6,946	30,660
Less: Bad debt provision	—	(316)
Total Accounts receivable, net	**6,946**	**30,344**

Movement of Bad debt provision for accounts receivable is as follows:

	As of December 31, 2017	As of December 31, 2018
Balance as of January 1	—	—
Provisions for doubtful accounts	—	(316)
Balance as of December 31	**—**	**(316)**

7. PREPAYMENT AND OTHER CURRENT ASSETS

	As of December 31, 2017	As of December 31, 2018
Funds receivable from third party mobile and online payment platforms	24,275	49,488
Advance to suppliers mainly for cloud computing service	16,911	17,198
VAT receivable	2,299	12,747
Interest receivable from bank deposit and wealth management products	4,662	8,897
Deposits mainly for lease of premises	3,925	6,602
Other receivables	2,632	2,046
Total	**54,704**	**96,978**

8. PROPERTY AND EQUIPMENT, NET

Property and equipment and its related accumulated depreciation are as follows:

	As of December 31, 2017	As of December 31, 2018
Office facilities	6,708	7,408
Software	1,908	4,035
Computer equipment	1,636	6,787
Vehicles	60	21
Leasehold improvement	10,515	28,853
Total cost	20,827	47,104
Less: Accumulated depreciation	(7,964)	(16,078)
Less: Impairment	—	(8,481)
Property and equipment, net	**12,863**	**22,545**

Depreciation expenses related to property and equipment were RMB2,298, RMB4,886 and RMB 10,380 for the years ended December 31, 2016, 2017 and 2018, respectively.

For the year ended December 31, 2018, the Group recognized an impairment of RMB8,481 to write off certain assets which will not be used due to the cease of unmanned smart mini-stores business. The revenue and cost associated with this business was not material.

9. INTANGIBLE ASSETS, NET

Gross carrying amount, accumulated amortization and net book value of the intangible assets are as follows:

	As of December 31, 2017	As of December 31, 2018
BCA	437,626	459,661
NCA	544,793	572,224
Trademark and domain name	324,130	324,161
Technology	96,000	96,000
Less: Accumulated amortization	(332,847)	(551,414)
Intangible assets, net	**1,069,702**	**900,632**

Amortization expenses related to intangible assets were RMB135,838, RMB204,175 and RMB201,861 for the years ended December 31, 2016, 2017 and 2018, respectively.

The estimated aggregate amortization expenses for each of the five succeeding fiscal years and thereafter are as follows:

	Future amortization expenses RMB
For the years ending December 31,	
2019	207,775
2020	181,902
2021	181,433
2022	181,433
2023	80,508
Thereafter	67,581
Total	900,632

10. SHORT-TERM LOAN

	As of December 31, 2017	As of December 31, 2018
Short-term bank borrowings	354,499	—

In March 2017, the Group entered into a credit agreement with a domestic commercial bank, for which the total facility was amounted to RMB 950,000 (the “Facility”) with a term of one year. In 2017, the Group drew five borrowings from the Facility for an aggregated principal amount of RMB 354,499 which was collateralized by the bank deposit of US$ 52,380 (RMB 342,261) classified as restricted cash. The loan was repaid and the restriction on the bank deposit was released in 2018. The annual interest rate of the borrowings was approximately 3.92%, resulting in interest expenses of RMB8,908 and RMB3,122 for the years ended December 31, 2017 and 2018, respectively.

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31, 2017	As of December 31, 2018
Salaries and welfare payables	52,225	51,287
Payables to marketplace merchants (1)	36,678	48,192
Advance from merchants for delivery service (2)	39,470	33,406
Accrued marketing expenses for JDDJ Platform	27,696	26,510
Deposits from merchants and Drivers	7,362	21,065
Professional fee payables	3,890	14,497
Tax payables	77,394	7,753
Rental payables	31	7,333
Interest payable	3,395	—
Others	9,974	19,897
Total	**258,115**	**229,940**

(1) Payables to marketplace platform merchants represent cash collected on behalf of marketplace sellers for products sold through the Group’s online marketplace platform.

(2) Advance from merchants for logistic service represents the prepayments from merchants for on-demand logistic platform services. The amount is refundable if no service is provided.

12. WARRANT LIABILITIES

In connection with the acquisition of JDDJ business on April 26, 2016, a warrant was issued to JD (Note 3), which provided JD the right to purchase additional 35,151,665 Series E Preferred Shares with the pre-determined purchase price of US$ 4.28 per share and exercisable at any time and expire on the earlier of (i) 24 months after issuance or (ii) immediately prior to a public offering (“Qualified IPO”). The warrant shall automatically terminate upon the completion of a Qualified Financing. A Qualified Financing means a bona fide private placement financing by the Company, which (i) values the Company at a pre-money valuation (excluding any amount of exercise price paid under this warrant) of at least US$4,090,950 and (ii) upon completion, will result in gross proceeds to the Company of at least US$100,000 in the aggregate (taking into account all closings of such financing if there is more than one closing).

The Group followed the authoritative guidance which requires liability classification for warrant issued that are exercisable into convertible redeemable preferred shares. Liability classification requires the warrant to be re-measured to their fair value at the end of each reporting period. The Group utilized the service of an independent third party specialist to determine the fair value of the warrant, which took into consideration the fair value of underlying preferred shares, a risk-free interest rate, and expected volatility. Certain inputs used in the model are unobservable. As a result, the valuation of the warrant was categorized as Level 3 in accordance with ASC 820, “Fair Value Measurement”.

On December 28, 2017, the warrants were exercised by JD, upon which JD paid the subscription amounting to US$ 150,404 (RMB 983,820) for 35,151,665 Series E Preferred Shares.

12. WARRANT LIABILITIES (CONTINUED)

The Group estimates its fair value using binomial model as of December 28, 2017 (immediate prior to the exercise of the warrants) using the following assumptions:

	As of December 31, 2016		As of December 28, 2017	
Fair market value per share as of valuation date	US$	4.35	US$	4.47
Exercise price	US$	4.28	US$	4.28
Risk free rate of interest		1.63%		2.10%
Dividend yield		0.00%		0.00%
Expected volatility		38%		30%

The carrying fair value of the warrant liabilities on exercise date was US$15,800 (RMB103,240), and the fair value changes in warrant liabilities for the years ended December 31, 2016, and 2017 were US$4,500 (RMB29,221) and US$12,700 (RMB 82,467), respectively.

The Group estimated expected volatility by reference to the historical share price volatility of comparable companies over a period close to the remaining life of the warrant. The Group estimated the risk free interest rate based on the yield to maturity of U.S. Treasure Bill on the valuation date, with the maturity period close to the remaining life of the warrant and adjusted by country risk differential between US and China. The estimated fair value of the preferred shares was determined with assistance from an independent third party valuation firm. The dividend yield was estimated as zero based on the plan to retain profit for corporate expansion and no dividend distribute in the near future. The assumptions used in warrant fair value assessment represent the Group's best estimates, but these estimates involve inherent uncertainties and the application of judgment. If factors change or different assumptions are used, the fair value change of warrants could be materially different for any period.

13. SHARE-BASED COMPENSATION

In February 2015, the Group adopted the 2015 Incentive Compensation Plan ("2015 Plan"), which permits the granting of share options, restricted share units and other equity incentives to employees, directors and consultants of the Group. The 2015 plan administrator is the Group's board of directors. The board may also authorize one or more of the Group's officers to grant awards under the plan. The Group has authorized 68,698,662 ordinary shares for issuance under the 2015 Plan.

Employee options:

Under the 2015 Plan, options granted to employees vest upon satisfaction of a service condition, which is generally satisfied over four years. Additionally, the 2015 Plan includes a condition where employees can only exercise vested options upon the occurrence of that the Company's ordinary shares become listed securities, which substantially creates a performance condition ("IPO Condition"). Therefore, since the adoption of the 2015 Plan, the Group has not recognized any stock-based compensation expenses for options granted, because the exercisable event as described above has not occurred. The Group granted 7,632,897, 3,057,177 and 5,264,956 share options to certain of its employees in 2016, 2017 and 2018, respectively. The options expire ten years from the date of grant.

In October 2016, in connection with the issuance of Series E Preferred Shares, the board of directors of the Company resolved to repurchase 1,199,608 share options from employees with a cash consideration of US$2,553 (RMB17,215). The Group believes that the repurchase was one-off in nature and the classification of the awards should not be changed as these awards were not deemed to have a substantive cash settlement feature. The repurchase of share options was an improbable-to-probable modification of the unvested awards and therefore accounted for as the issuance of a new award. The consideration paid for the repurchase was recognized as compensation cost in general and administrative expenses on settlement date.

13. SHARE-BASED COMPENSATION (CONTINUED)

Non-employee options:

Under the 2015 Plan, the Group granted 2,000,000 share options to certain non-employees vest upon satisfaction of a 4-year service condition in 2015, including a condition where optionee can only exercise vested options when the Company's ordinary shares become listed securities. The options expire ten years from the date of grant. The Group granted 862,390, nil and nil share options to certain of its non-employees in 2016, 2017 and 2018, respectively.

In April 2016, the board of directors agreed for early vesting and repurchase of 716,431 share options at the price of US$4.19 (RMB27.12) per share. The Group believes that the repurchase was one-off in nature and the classification of the awards should not be changed as these awards were not deemed to have a substantive cash settlement feature. The repurchase of early exercised share options was an improbable-to-probable modification of the unvested awards and accounted for as the issuance of a new award. The consideration paid for the repurchase was recognized as compensation cost in general and administrative expenses with an amount of US$2,991 (RMB19,372) on settlement date.

In determining the fair value of the stock options, the binomial option pricing model was applied. The key assumptions used to determine the fair value of the options at the relevant grant dates in 2016, 2017 and 2018 were as follows:

	For the years ended December 31,		
	2016	2017	2018
Expected volatility	40%~42%	36%~40%	36%~38%
Risk-free interest rate (per annum)	2.4%~3.3%	3%~3.2%	3.5%~3.7%
Exercise multiples	2.2	2.2 and 2.8	2.2
Expected dividend yield	0.00%	0.00%	0.00%

The Group estimated expected volatility by reference to the historical price volatilities of ordinary shares of comparable companies over a period close to the contract term of the options. The Group estimated the risk free interest rate based on the yield to maturity of U.S. government bonds at grant dates with a maturity period close to the contract term of options, adjusted by country risk differential between U.S. and China. As the Group has had no option exercise history, it estimated exercise multiples based on empirical research on typical employee stock option exercising behavior. The dividend yield was estimated as zero based on the plan to retain profit for corporate expansion and no dividend distribute in near future. The assumptions used in share-based compensation expenses recognition represent the Group's best estimates, but these estimates involve inherent uncertainties and the application of judgment. If factors change or different assumptions are used, the share-based compensation expenses could be materially different for any period.

13. SHARE-BASED COMPENSATION (CONTINUED)

The following table summarized the Group's share option activities under the Option Plans:

	Number of options	Weighted average exercise price US$	Weighted average remaining contract life	Weighted average grant date fair value US$	Aggregate intrinsic value US$
Outstanding at January 1, 2016	27,446,620	0.02	9.12	0.12	29,045
Granted	8,495,287	0.80		0.64	
Exercised	(716,431)	0.01		0.11	
Repurchased	(1,199,608)	0.01		0.12	
Forfeited/Cancelled	(791,125)	0.32		0.30	
Outstanding at December 31, 2016	33,234,743	0.21	9.06	0.25	33,431
Granted	3,057,177	0.80		0.98	
Forfeited/Cancelled	(3,830,251)	0.54		0.46	
Outstanding at December 31, 2017	**32,461,669**	**0.23**	**8.48**	**0.30**	**52,253**
Granted	5,264,956	0.80		1.37	
Forfeited/Cancelled	(1,567,512)	0.71		0.77	
Outstanding at December 31, 2018	**36,159,113**	**0.29**	**7.89**	**0.43**	**65,356**
Vested and expect to vest at December 31, 2018	36,159,113	0.29	7.89	0.43	65,356
Exercisable at December 31, 2018	—	—	—	—	—

As of December 31, 2018, share-based compensation of US$6,756 (RMB45,881) would be recognised immediately if the IPO Condition had been met.

Escrowed shares

On November 11, 2014 and April 20, 2015, in conjunction with the issuance of preferred shares, the Group entered into a share restriction agreement with the founder and the Co-founder to secure their services, pursuant to which all of their 72,887,414 ordinary shares of the Company became subject to transfer restrictions. In addition, the restricted shares shall initially be unvested and subject to repurchase by the Group at par value upon voluntary or involuntary termination of employment (the "Repurchase Right"). The Repurchase Right terminates over 4 and 3.6 years, respectively, in 48 and 43 equal monthly instalments thereafter. The founder and the Co-founder retain the voting rights of such restricted shares and any additional securities or cash received as the result of ownership of such shares, such as a share dividend, become subject to restriction in the same manner. The Group measured the fair values of the restricted shares as of November 11, 2014 and April 20, 2015 and recognized the amount as compensation expenses over the 48 and 43 months deemed service period on a straight-line basis.

	Number of restricted shares	Weighted average grant date fair value US$
Unvested at January 1, 2016	52,607,687	0.10
Vested	(18,567,416)	0.10
Unvested at December 31, 2016	30,040,271	0.10
Vested	(18,567,416)	0.10
Unvested at December 31, 2017	15,472,855	0.10
Vested	(15,472,855)	0.10
Unvested at December 31, 2018	—	0.10

13. SHARE-BASED COMPENSATION (CONTINUED)

On December 17, 2016, the Group paid US$945 (RMB6,392) to repurchase the Co-founder's 441,588 ordinary shares that were released from the restriction (note 15). The fair value of the ordinary shares was US$1.25 (RMB8.47) per share on the repurchase date. The amount of cash to repurchase the vested shares was charged to additional paid-in capital ("APIC"), to the extent that the amount paid does not exceed the fair value of the vested shares, which is US$552 (RMB3,730) and the excess of the fair value amounted US$393 (RMB2,662) is recorded in general and administrative expenses as compensation cost.

Total share-based compensation expenses recognized for these restricted shares in 2016, 2017 and 2018 were US$2,311 (RMB14,413), US$1,918 (RMB11,752) and US$1,598 (RMB9,793), respectively. As of December 31, 2018, no unrecognized compensation expenses related to the restricted shares.

Restricted share units

On December 8, 2015, May 27, 2016 and December 4, 2018, the Group granted restricted share units of 14,185,333, 9,348,000 and 3,000,000, respectively, to employees including directors, subject to service vesting schedule of four years under the 2015 Plan. The estimated fair values on the grant date of each restricted share unit were US$1.16 (RMB7.60), US$1.08 (RMB6.92) and US$2.10 (RMB14.55), respectively. In 2016, 2017 and 2018, 7,011,000, 1,898,813 and nil restricted share units were forfeited, respectively, due to resignation of employees.

The following table summarized the Group's restricted share unit activities under the 2015 Plan:

	Number of restricted share units	Weighted average grant date fair value
		US$
Unvested at January 1, 2016	14,185,333	1.08
Granted	9,348,000	1.16
Vested	(3,887,146)	1.11
Cancelled	(7,011,000)	1.16
Unvested at December 31, 2016	12,635,187	1.08
Vested	(3,643,708)	1.13
Forfeited	(1,898,813)	1.16
Unvested at December 31, 2017	7,092,666	1.03
Granted	3,000,000	2.26
Vested	(3,608,833)	1.09
Unvested at December 31, 2018	6,483,833	1.57
Expected to vest at December 31, 2018	6,483,833	

Restricted share units granted to employees are measured based on their grant-date fair values and recognized as compensation cost on a straight-line basis over the requisite service period. Total share-based compensation expenses recognized for these restricted share units in 2016, 2017 and 2018 were US$4,301 (RMB28,649), US$4,124 (RMB28,586) and US$3,945 (RMB26,197), respectively. As of December 31, 2018, there were US$9,999 (RMB67,245) of unrecognized compensation expenses related to unvested restricted share units which is expected to be recognized over a weighted-average period of 2.32 years.

13. SHARE-BASED COMPENSATION (CONTINUED)

JD's Share Incentive Plan (the "JD Employee Awards")

On April 26, 2016, the Group consummated the acquisition of JDDJ business from JD. The acquisition involved the transfer of certain employees from JD to the Group. These employees were granted with unvested restricted share units by JD (the "JD Employee Awards") when they were employed by JD. The JD Employee Awards which are generally vested annually over six years continued in effect after the acquisition for the employees transferred to the Group, provided that these employees continue their employment with the Group or any subsidiaries of JD.

The Group recognizes the entire cost of JD Employee Awards incurred by JD, the Group's investor, as compensation cost with a corresponding amount as a capital contribution according to ASC 505-10-25-3. The Group remeasured the awards at a fair-value-based amount as of the end of each reporting period until performance is completed. Total share compensation amounts recorded were US$1,861 (RMB13,479), US$3,028 (RMB20,503) and US$2,313 (RMB15,195) for the years ended December 31, 2016, 2017 and 2018, respectively. As of December 31, 2018, there were US$ 2,689 (RMB 18,458) of unrecognized compensation expenses related to unvested restricted share unit which is expected to be recognized over a weighted-average period of 3.52 years.

	Number of restricted share units	Weighted average fair value US$
Unvested at April 26, 2016	307,799	25.56
Granted	300,000	21.31
Vested	(77,172)	24.11
Forfeited	(14,718)	23.94
Unvested at December 31, 2016	515,909	25.44
Vested	(80,653)	37.54
Forfeited	(148,809)	30.29
Unvested at December 31, 2017	286,447	41.42
Granted	5,000	40.49
Vested	(68,644)	27.01
Forfeited	(3,978)	42.86
Unvested at December 31, 2018	218,825	20.93
Expected to vest at December 31, 2018	218,825	

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES

In November, 2014, the Group issued 7,700,000 (with par value of US$ 0.001, later each share was split into 10 shares with par value of US$ 0.0001 for each) Series A Preferred Shares with a total cash proceed of US$ 1,777 (RMB 10,900).

In November 2014, the Group entered into a bridge loan agreement in a total amount of US$ 2,000 (RMB 12,295) with its Series A shareholders (collectively, the "Bridge Loan Holders"). On January 12 and January 19, 2015, the Group entered into promissory notes agreement with one of the above mentioned Series A shareholders and a third party investor (collectively, the "2015 Notes Holders") respectively. The principal under the respective promissory notes agreement were US$ 1,000 and US$ 2,000, respectively.

In February 2015, the Group issued totalling 28,666,661 Series B Preferred Shares to new investors with a total proceed of US$ 17,200 (RMB 105,737). At the same time, all the Bridge Loan Holders converted the outstanding principal of US$ 2,000 into 4,081,638 Series B Preferred Shares at a conversion price of US$ 0.49 per share. All the 2015 Notes Holders converted the outstanding principal of US$ 3,000 on their 2015 Notes into 5,000,001 Series B Preferred Shares at a conversion price of US$ 0.6 per share.

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

In May 2015, the Group issued totalling 44,286,448 Series C Preferred Shares at US$ 2.1451 per share for an aggregate purchase price of US$ 95,000 (RMB581,362). In connection with the issuance of Series C Preferred Shares, the Group repurchased 2,330,866 ordinary shares from its founder with the consideration of US$5,000 (RMB30,598). The excess of the purchase price over the par value of the ordinary share with an amount of US$1,538 (RMB 9,413) was charged in accumulated deficit due to absence of APIC and the excess of the purchase price over the fair value of the ordinary share with an amount of US$3,462 (RMB 21,185) was recognized as compensation to its executive.

In September 2015, the Group issued totalling 58,508,205 Series D Preferred Shares at US$ 4.19 per share for an aggregate purchase price of US$ 245,000 (RMB 1,558,519). In April 2016, the Group issued additional totalling 5,492,637 Series D Preferred Shares at US$ 4.19 per share for an aggregate purchase price of US$ 23,000 (RMB 148,555).

In April 2016, in connection with the acquisition of JDDJ business, the Group issued 46,743,137 Series E Preferred Shares at US$ 4.28 per share with an aggregate purchase price of US$200,000 (RMB1,291,780), or US$198,378 (RMB1,281,306), net of issuance cost amounted RMB10,474 and a warrant, which provided JD the right to subscribe 35,151,665 Series E Preferred Shares with the pre-determined purchase price of US$ 4.28 per share and exercisable at any time and expire on the earlier of (i) 24 months after issuance or (ii) immediately prior to a public offering (Note 3).

In October 2016, the Group issued another totalling 11,685,784 shares (with par value of US$ 0.0001) of Series E Preferred Shares to a new investor at US$ 4.28 per share with an aggregate purchase price of US$50,000 (RMB 338,205).

The issuance cost related to Series E Preferred Shares was RMB 10,474.

In December 2017, JD exercised the warrant and subscribed 35,151,665 Series E Preferred Shares at US$ 4.28 per share with an consideration of US$ 150,403 (RMB983,820).

In January 2018, The Series E and D Preferred Shares’ conversion prices, originally US$4.28 and US$4.19 per share were reduced to US$4.06 and US$4.17 per share, respectively, pursuant to the conversion price adjustment stipulated in conversion terms as described below.

In August, 2018, the Group issued totalling 116,857,842 Series F Preferred Shares at US$ 4.28 per share with an aggregate purchase price of US$500,000 (RMB3,412,300) or US$498,582 (RMB 3,402,611), net of issuance cost amounted RMB9,689.

The key terms of the Series A, B, C, D, E and F convertible redeemable preferred shares are as follows:

Conversion

Each holder of preferred shares shall have the right, at such holder’s sole discretion, to convert all or any portion of the preferred shares into ordinary shares on a one-for-one basis at any time. The initial conversion price is the issuance price of preferred shares, subject to adjustment in the event of (1) stock splits, share combinations, share dividends and distribution, recapitalizations and similar events, and (2) issuance of new securities at a price per share less than the conversion price in effect on the date of or immediately prior to such issuance. In that case, the conversion price shall be reduced concurrently to the subscription price of such issuance. Additionally, the Series E conversion price shall be reduced, upon the earlier to occur of: (i) January 1, 2018 or (ii) the Company raising gross proceeds of at least US$100,000 in the aggregate through Next Equity Financing (taking into account all closings of such financing if there is more than one closing).

Each preferred share shall automatically be converted by way of repurchase of such preferred share and the issuance of the corresponding number of ordinary shares, based on the then applicable effective Series A conversion price, Series B conversion price, Series C conversion price, Series D conversion price, Series E conversion price or Series F conversion price, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares upon the earlier of (i) the closing of a qualified IPO and (ii) the date specified by written consent or agreement of, collectively and each voting as a separate class, (i) the holders holding a majority of the then outstanding Series A Preferred Shares, (ii) the holders holding at least sixty percent (60%) of the then outstanding Series B preferred Shares, (iii) the holders holding at least fifty percent (50%) of the then outstanding Series C Preferred Shares, (iv) the holders holding at least fifty percent (50%) of the then outstanding Series D Preferred Shares, (v) the holders holding at least fifty percent (50%) of the then outstanding Series E Preferred Shares, and (vi) the holders holding at least fifty percent (50%) of the then outstanding Series F Preferred Shares.

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Redemption

At any time after the earliest of (i) the fifth (5^{th}) anniversary of August 08, 2018, if a qualified IPO has not been consummated by then, (ii) the date that the Group and the Founder are engaged in any material fraudulent activities aiming at the holders of preferred shares, (iii) any important license, permit or government approvals necessary for the business of any group being suspended, rejected to be issued or renewed or revoked, to the extent that the Group's main business is materially and adversely affected as a result of such suspension, rejection or revocation, (iv) the validity, legality or enforceability of the VIE documents being outlawed by the PRC law, and (v) the date that any governmental authority prohibits any group from distributing all or any part of its distributable earnings or cash or other assets thereof to an offshore shareholder of any Group's subsidiaries, the Group shall, at the written request of any holder of the preferred shares.

Equal to one hundred percent (100%) of the Series A issue price (in the case of Series A Preferred Shares), one hundred percent (100%) of the applicable Series B issue price (in the case of Series B Preferred Shares), one hundred percent (100%) of the applicable Series C issue price (in the case of Series C Preferred Shares), one hundred percent (100%) of the applicable Series D issue price (in the case of Series D Preferred Shares), one hundred percent (100%) of the applicable Series E issue price (in the case of Series E Preferred Shares) or one hundred percent (100%) of the applicable Series F Issue Price with an eight percent (8%) compound per annum return (if the period is less than one year, such return shall be calculated pro rata) calculating from the applicable Series A issue date, Series B issue date, Series C issue date, Series D issue date, Series E issue date or Series F issue date (as the case may be) to the redemption price payment date, plus any accrued but unpaid dividends on such share and shall be exclusive of any liquidity or minority ownership discount, with payment on the twentieth (20^{th}) business day after the date of written request by the holders of preferred shares.

In the case of the Series E Preferred Shares and the Series F Preferred Shares owned by Azure Holdings S.a.r.l ("Walmart"), without limitation of any other rights of redemption of the Series E Preferred Shares or Series F Preferred Shares hereunder, in the event of an uncured key breach by any Group's subsidiaries of the Revised Business Cooperation Agreement as determined in the Redemption Condition, so long as the redemption conditions are satisfied, the Group shall, at the written request of Walmart, redeem all or part of the outstanding Preferred Shares held by Walmart and/or its Affiliates, at a price per Preferred Share equal to one hundred percent (100%) of the applicable Series E issue price or one hundred percent (100%) of the applicable Series F issue price, plus any accrued but unpaid dividends on such share and shall be exclusive of any liquidity or minority ownership discount, with payment on the twentieth (20^{th}) business day after the date of written request by Walmart.

Liquidation Preference

In the event of any liquidation, dissolution or winding up of the Group, whether voluntary or involuntary, all assets and funds of the Group legally available for distribution to the members (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the members of the Group as follows:

(1) Amount to one hundred percent (100%) of Series B Preferred Shares, Series C Preferred Shares, Series D Preferred Shares, Series E Preferred Shares or Series F Preferred Shares holder (collectively, the "Senior Preferred Shares"), plus all declared but unpaid dividends on such Senior Preferred Shares. If the assets and funds thus distributed among the holders of the Senior Preferred Shares shall be insufficient to permit the payment to such holders of the full Series B, Series C, Series D, Series E and Series F Preference Amount (collectively, the "Senior Preference Amount"), then the entire assets and funds of the Group legally available for distribution shall be distributed ratably among the holders of the Senior Preferred Shares in proportion to the aggregate Senior Preference Amount each such holder is otherwise entitled to receive pursuant to this term;

(2) If there are any assets or funds remaining after distribution according to above term (1), the holders of the Series A Preferred Shares shall be entitled to receive for each Series A Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Group to the holders of the ordinary shares by reason of their ownership of such shares, the amount equal to one hundred percent (100%) of the Series A issue price ("Series A Preference Amount"). If the assets and funds thus distributed among the holders of the Series A Preferred Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire assets and funds of the Group legally available for distribution to the Series A Preferred Shares shall be distributed ratably among the holders of the Series A Preferred Shares in proportion to the aggregate Series A Preference Amount each such holder is otherwise entitled to receive pursuant to this term;

(3) If there are any assets or funds remaining after the aggregate Senior Preference Amount and the aggregate Series A Preference Amount has been distributed or paid in full to the applicable holders of Preferred Shares pursuant to term (1) and (2), the remaining assets and funds of the Group available for distribution to the members shall be ratably distributed among all members according to the relative number of ordinary shares held by such member (including the holders of the Series A Preferred Shares, the Series B Preferred Shares, the Series C Preferred Shares, the Series D Preferred Shares, the Series E Preferred Shares and the Series F Preferred Shares).

Dividends

(1) Each holder of a Preferred Share shall be entitled to receive noncumulative dividend at the rate of eight percent (8%) of the applicable Series A issue price, Series B issue price, Series C issue price, Series D issue price, Series E issue price or Series F issue price as the case may be, per annum for each such share held by such holder, payable out of funds or assets when and as such funds or assets become legally available therefore on parity with each other, prior and in preference to, and satisfied before, any dividend on any other class or series of shares. Such dividends shall be payable only when, as, and if declared by the Board of Directors.

(2) No dividend or distribution, whether in cash, in property, or in any other shares of the Group, shall be declared, paid, set aside or made with respect to the ordinary shares at any time unless all accrued but unpaid dividends on the Preferred Shares set forth in term (1), if any, have been paid in full, and a distribution is likewise declared, paid, set aside or made, respectively, at the same time with respect to each outstanding Preferred Share such that the dividend or distribution declared, paid, set aside or made to the holder thereof shall be equal to the dividend or distribution that such holder would have received pursuant to this term if such Preferred Share had been converted into ordinary shares immediately prior to the record date for such dividend or distribution, or if no such record date is established, the date such dividend or distribution is made, and if such share then participated in and the holder thereof received such dividend or distribution.

Voting Rights

Subject to the provisions of Seventh Amended and Restated Memorandum and Articles (including any Article providing for special voting rights), at all general meetings of the Group: (a) the holder of each ordinary share issued and outstanding shall have one vote in respect of each ordinary share held, and (b) the holder of a preferred share shall be entitled to such number of votes as equals the whole number of ordinary share into which such holder's collective preferred shares are convertible immediately after the close of business on the record date of the determination of the Group's members entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Group's members is first solicited. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as converted basis (after aggregating all shares into which the preferred shares held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). To the extent that the statute or the articles allow the preferred shares to vote separately as a class or series with respect to any matters, the preferred shares, shall have the right to vote separately as a class or series with respect to such matters.

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Accounting for the Preferred Shares

The Group has classified the preferred shares as mezzanine equity as these preferred shares are redeemable upon the occurrence of an event not solely within the control of the Group. The holders of the preferred shares have a redemption right and liquidation preference and will not receive the same form of consideration upon the occurrence of the conditional event as the ordinary shareholders would.

The Group recorded the initial carrying amount of the preferred shares with its issuance price, which approximated the issuance date fair value, after the reduction of the issuance cost. The Group uses interest method to accrete the carry value of the preferred shares to their maximum redemption price at the end of each reporting period. The change in redemption value is recorded against retained earnings, or in the absence of retained earnings, against APIC. Once APIC has been exhausted, additional charges are recorded by increasing the accumulated deficit.

The Group did not identify any derivatives embedded in the preferred shares that were qualified for bifurcation and subject to fair value accounting. The Group also determined that there was no beneficial conversion feature attributable to the preferred shares, as the effective conversion price was not less than the fair value of the ordinary shares on the respective commitment date.

Accounting for the Preferred Shares (continued)

The following table summarised the rollforward of the carrying amount of the preferred equity for the years of 2017 and 2018:

	Series A RMB	Series B RMB	Series C RMB	Series D RMB	Series E RMB	Series F RMB	Total RMB
December 31, 2016	12,930	158,762	661,884	1,881,800	1,707,072	—	**4,422,448**
Issuance	—	—	—	—	1,087,060	—	**1,087,060**
Accretion	1,134	13,893	58,144	159,481	141,594	—	**374,246**
December 31, 2017	14,064	172,655	720,028	2,041,281	2,935,726	—	**5,883,754**
Issuance	—	—	—	—	—	3,402,611	**3,402,611**
Accretion	1,196	14,661	61,371	168,323	149,445	116,650	**511,646**
December 31, 2018	**15,260**	**187,316**	**781,399**	**2,209,604**	**3,085,171**	**3,519,261**	**9,798,011**

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

As of December 31, 2018, a summary of convertible redeemable preferred shares are as follows:

Series	Average Issue Price per Share	Issuance Date	Shares Issued	Shares Outstanding	Proceeds from Issuance, net of Issuance Costs	Carrying/ Redemption Amount
	US$				US$	RMB
A	0.2307	11/11/2014	77,000,000	77,000,000	1,777	15,260
B	0.5881	13/02/2015	37,748,300	37,748,300	22,200	187,316
C	2.1451	22/05/2015	44,286,448	44,286,448	95,000	781,399
D	4.1874	23/09/2015	58,508,525	58,508,525	245,000	2,024,995
D	4.1874	05/04/2016	5,492,637	5,492,637	23,000	184,609
E	4.2787	26/04/2016	46,743,137	46,743,137	198,378	1,598,206
E	4.2787	20/10/2016	11,685,784	11,685,784	50,000	399,904
E	4.2787	28/12/2017	35,151,665	35,151,665	150,403	1,087,061
F	4.2787	08/08/2018	116,857,842	116,857,842	498,582	3,519,261
			433,474,338	**433,474,338**	**1,284,340**	**9,798,011**

15. ORDINARY SHARES

On July 10, 2014, the Company was incorporated with an issuance of 6,100,000 ordinary shares to the founder at a par value of US$ 0.001 each. On February 7, 2015, the Company effected a 1-for-10 share split of the Company’s shares. The number of outstanding ordinary shares of 6,100,000 split into 61,000,000 shares while the par value of US$ 0.001 was converted into US$0.0001. Subscription receivable of RMB 35 from the founder was recorded as of December 31, 2016, 2017 and 2018.

On April 20, 2015, the Group issued 10,044,865 ordinary shares subject to share restriction agreement to the co-founder with proceeds of zero (Note 13).

On May 29, 2015, the Group paid US$ 5,000 (RMB 30,598) to repurchase 2,330,866 outstanding ordinary shares at US$ 2.1451 per share from its founder and all the repurchased ordinary shares were retired in 2015. (Note 14).

On April 14, 2016, the Group paid US$ 3,000 (RMB 19,429) to repurchase 716,431 early exercised share options from non-employees at US$ 4.1874 per share and all the repurchased shares were retired in 2016. The total consideration was charged against general and administrative expenses (Note 13).

On April 26, 2016, the Group entered into a share purchase agreement with JD, pursuant to which the Group issued 286,832,885 ordinary shares to JD in connection with the acquisition of JDDJ business (Note 3).

On December 17, 2016, the Group paid US$ 945 (RMB 6,392) to repurchase 441,588 ordinary shares from the co-founder at US$ 2.14 per share to compensate his service (Note 13).

On April 23, 2018, the Company issued 7,092,667 ordinary shares for vested restricted share units of the founder and the co-founder.

16. TAXATION

Income Taxes

Cayman Islands

Under the current laws of the Cayman Islands, the Company incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% since January 1, 2010. Operations in Hong Kong have incurred net accumulated operating losses for income tax purpose and no income tax provisions are recorded for the period presented. Under the current Hong Kong Inland Revenue Ordinance, the Group's subsidiary domiciled in Hong Kong has introduced a two-tiered profits tax rate regime which is applicable to any year of assessment commencing on or after April 1, 2018. The profits tax rate for the first HK$2,000 of profits of corporations will be lowered to 8.25%, while profits above that amount will continue to be subject to the tax rate of 16.5%.

China

On March 16, 2007, the National People's Congress of the PRC introduced a new Corporate Income Tax Law ("new CIT Law"), under which Foreign Investment Enterprises ("FIEs") and domestic companies would be subject to corporate income tax at a uniform rate of 25%. Certain enterprises will benefit from a preferential tax rate of 15% under the CIT Law if they qualify as high and new technology enterprises ("HNTE"). Under such regulation, Dada Glory and Yuanxin are qualified for HNTE status and are eligible to a reduced income tax rate of 15% for the years ended 2018, 2019 and 2020.

Withholding tax on undistributed dividends

The new CIT Law also provides that an enterprise established under the laws of a foreign country or region but whose "de facto management body" is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The implementing rules of the CIT Law merely define the location of the "de facto management body" as "the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, property, etc., of a non-PRC company is located". Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its operations outside of the PRC should be considered a resident enterprise for PRC tax purposes.

The new CIT law also imposes a withholding income tax of 10% on dividends distributed by an FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company is incorporated, does not have such tax treaty with China. According to the arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE).The Company did not record any dividend withholding tax, as it has no retained earnings for any of the periods presented.

16. TAXATION (CONTINUED)

Loss by tax jurisdictions:

	Years ended December 31, 2016	2017	2018
Loss from PRC operations	1,447,549	1,380,349	1,771,273
Loss from non-PRC operations	93,267	82,854	134,599
Total losses before tax	1,540,816	1,463,203	1,905,872

The current and deferred portion of income tax expenses included in the Consolidated Statements of Operations and Comprehensive Loss are as follows:

	Years ended December 31, 2016	2017	2018
Current tax expenses	—	724	42
Deferred tax benefits	(9,891)	(14,837)	(27,539)
Income tax benefits	**(9,891)**	**(14,113)**	**(27,497)**

Reconciliation of difference between PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2016, 2017 and 2018 are as follows:

	Years ended December 31, 2016	2017	2018
Statutory tax rate	25.0%	25.0%	25.0%
Effect of different tax rate of subsidiary operation in other jurisdiction	(1.5)%	(1.5)%	(1.8)%
Effect of tax holiday	—	—	(8.5)%
Effect of change in tax rate	—	—	8.5%
Changes in valuation allowance	(23.3)%	(22.9)%	(24.7)%
Amortization of deferred tax liabilities from the identified intangible assets	0.6%	1.0%	1.4%
Other expenses not deductible for tax purposes	(0.6)%	(1.4)%	(0.9)%
Super deduction of research and development expenses	0.4%	0.8%	2.4%
Effective tax rate	**0.6%**	**1.0%**	**1.4%**

<u>Deferred tax assets and deferred tax liabilities</u>

	As of December 31, 2017	2018
Deferred tax assets		
- Net operating loss carry forwards	915,212	1,384,440
- Allowance for doubtful accounts	—	79
- Inventories valuation allowance	—	408
- Impairment provision for property and equipment	—	2,120
- Impairment provision for other non-current assets	—	1,039
- Accrued expenses	19,115	16,168
Less: Valuation allowance	(934,327)	(1,404,254)
Net deferred tax assets	**—**	**—**
Deferred tax liabilities		
- Identifiable intangible assets from business combination	80,272	52,733
Total deferred tax liabilities	**80,272**	**52,733**

16. TAXATION (CONTINUED)

As of December 31, 2017 and 2018, the Group had net operating loss carry forwards of approximately RMB 3,660,846 and RMB 5,537,754, respectively, which arose from the subsidiaries, VIE and VIE's subsidiaries established in the PRC. The loss carry forwards will expire during the period from 2019 to 2028.

The Group believes that it is more likely than not that the net accumulated operating losses and other deferred tax assets will not be utilized in the future based on an evaluation of a variety of factors including the Group's operating history, accumulated deficit, existence of taxable temporary differences and reversal periods. Therefore, the Group provided full valuation allowances for the deferred tax assets as of December 31, 2017 and 2018, respectively.

Movement of valuation allowance

	Years ended December 31,		
	2016	2017	2018
Balance at beginning of the year	241,837	599,870	934,327
Addition	358,033	334,457	469,927
Balance at end of the year	599,870	**934,327**	**1,404,254**

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of income taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of income tax liability exceeding RMB100 is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The Group's PRC subsidiaries are therefore subject to examination by the PRC tax authorities from 2014 through 2018 on non-transfer pricing matters, and from 2014 through 2018 on transfer pricing matters.

17. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, amount due from related parties and prepayments. The Group places its cash and cash equivalents and short-term investments with financial institutions with high-credit ratings and quality. Accounts receivable mainly consist of amounts receivable from merchants, which are all with good collection history. There are no significant concentrations of credit risk. With respect to prepayments, the Group performs on-going credit evaluations of the financial condition of these suppliers.

Concentration of customers

The following customer accounted for 10% or more of revenues for the years ended December 31, 2016, 2017 and 2018, respectively.

	Years ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Customer A	28,462	691,002	943,084

17. CONCENTRATION OF CREDIT RISK (CONTINUED)

The following customer accounted for 10% or more of accounts receivable as of December 31, 2017 and 2018, respectively.

	As of December 31,	
	2017	2018
	RMB	RMB
Customer B	4,536	4,223
Customer C	1,290	4,215
Customer D	*	6,533

* Less than 10%.

Concentration of suppliers

The following suppliers accounted for 10% or more of accounts payable as of December 31, 2017 and 2018, respectively.

	As of December 31,	
	2017	2018
	RMB	RMB
Supplier A	773	1,193
Supplier B	1,470	*
Supplier C	1,338	*
Supplier D	875	*

* Less than 10%.

Foreign currency risk

RMB is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Group included aggregated amounts of RMB138,489 and RMB77,975 denominated in RMB, as of December 31, 2017 and 2018, respectively.

18. RELATED PARTY TRANSACTIONS

The table below sets forth the major related parties and their relationships with the Group as of December 31, 2018:

Name of related parties	Relationship with the Group
JD and its subsidiaries ("JD Group")	Shareholder of the Company
Walmart and its subsidiaries ("Walmart Group")	Shareholder of the Company
Co-founder	Executive of the Group

(a) The Group entered into the following transactions with the major related parties:

	Years ended December 31,		
	2016	2017	2018
Revenues			
Comprehensive logistic solution services to JD Group	—	691,002	943,084
On-demand logistic platform services to JD Group	28,462	—	—
Comprehensive logistic solution services to Walmart Group	—	—	2,985
JDDJ marketplace platform services to Walmart Group	—	—	28,618
Other services to Walmart Group	—	—	4,256
Operating expenses:			
Operational support services from JD Group	122,621	29,986	32,862
Purchases from JD Group	1,033	7,191	26,908

JD Group provides certain operational support services to the Group and the service fee is charged based on the actual usage incurred.

(b)The Group had the following balances with the major related parties:

	As of December 31,	
	2017	2018
Current assets:		
Amount due from JD Group	48,232	151,481
Amount due from Walmart Group	—	7,354
Amount due from co-founder	528	528
Total	**48,760**	**159,363**
Current liabilities:		
Amount due to JD Group	38,290	32,672
Amount due to Walmart Group	—	21,630
Total	**38,290**	**54,302**

The Group provides collection of Cash on Delivery service when performing comprehensive logistics solution services to JD Group. Amount due to JD Group includes cash collected from consumers on behalf of JD.COM when merchandises are delivered to them.

Amount due to Walmart includes cash collected from consumers on behalf of Walmart when the Group performs JDDJ marketplace platform services to the Walmart Group.

19. EMPLOYEE BENEFIT

As stipulated by the regulations of the PRC, full-time employees of the Group are entitled to various government statutory employee benefit plans, including medical insurance, maternity insurance, workplace injury insurance, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Group is required to make contributions to the plan based on certain percentages of employees' salaries. The total expenses the Group incurred for the plan were RMB27,767, RMB53,404 and RMB85,328 for the years ended December 31, 2016, 2017 and 2018, respectively, which are recorded in expenses based on the function of employees.

20. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group has leased office premises under operating lease agreements for the periods from 2019 to 2024. Future minimum lease payments for non-cancellable operating leases are as follows:

	As of December 31, 2018
	RMB
2019	32,227
2020	21,181
2021	17,958
2022	18,059
2023 and after	32,835
	122,260

Rental expenses amounted to RMB9,705, RMB17,578 and RMB40,519 for the years ended December 31, 2016, 2017 and 2018, respectively. Rental expenses are charged to the Consolidated Statements of Operations and Comprehensive Loss when incurred.

Contingencies

The Group is subject to periodic legal or administrative proceedings in the ordinary course of its business. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material adverse effect on the financial statements.

21. SUBSEQUENT EVENT

The subsequent events were evaluated through June 28, 2019, which is the issuance date of the audited consolidated financial statements and no significant subsequent event was identified.

Exhibit 99.3

BITAUTO HOLDINGS LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

BITAUTO HOLDINGS LIMITED

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Bitauto Holdings Limited

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Bitauto Holdings Limited and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income/(loss), cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15 of the Form 20-F. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
April 26, 2019

We have served as the Company's auditor since 2015.

BITAUTO HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2018
(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)

	Notes	2017 RMB	2018 RMB
Assets			
Current assets			
Cash and cash equivalents		9,555,027	4,576,820
Restricted cash	6	811,596	4,344,291
Accounts receivable, net	7	2,854,410	3,890,712
Bills receivable		330,544	365,036
Prepayments and other receivables	8	1,103,683	2,039,299
Due from related parties	28	205,031	181,495
Uncollateralized finance receivables - current portion, net	14	2,963,926	5,226,642
Collateralized finance receivables - current portion, net	14	10,289,972	13,546,137
Other current assets		3,180	4,415
Total current assets		28,117,369	34,174,847
Non-current assets			
Restricted cash	6	672,736	446,108
Investment in equity investees	9	1,184,196	1,907,171
Investment in convertible notes	10	—	1,789,470
Property, plant and equipment, net	11	1,296,196	449,387
Intangible assets, net	12	1,726,321	996,941
Deferred tax assets	24	52,508	178,563
Goodwill	13	543,655	532,130
Uncollateralized finance receivables - non-current portion, net	14	4,181,627	6,609,474
Collateralized finance receivables - non-current portion, net	14	12,356,080	11,494,820
Other non-current assets	15	1,385,044	1,165,027
Total non-current assets		23,398,363	25,569,091
Total assets		51,515,732	59,743,938
Liabilities			
Current liabilities (including amounts of the consolidated VIEs and subsidiaries of VIEs without recourse to the primary beneficiaries of RMB3,655,453 and RMB4,399,899 as of December 31, 2017 and 2018, respectively)			
Short term borrowings	16	11,243,614	12,274,038
Asset-backed securitization debt	17	6,165,429	10,021,333
Accounts payable		2,176,627	2,909,051
Bills payable		295,089	32,300
Guarantee liabilities	18	—	107,614
Income tax payable		172,018	361,726
Due to related parties	28	98,241	106,563
Deferred revenue	20	81,629	164,867
Other payables and accruals	21	2,466,592	2,660,157
Total current liabilities		22,699,239	28,637,649

The accompanying notes are an integral part of the consolidated financial statements.

BITAUTO HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2017 AND 2018
(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

	Notes	2017 RMB	2018 RMB
Non-current liabilities			
Long term borrowings	16	5,074,273	4,626,756
Asset-backed securitization debt	17	2,611,821	3,764,348
Convertible debt	19	707,854	774,703
Deferred tax liabilities	24	52,237	27,770
Deferred revenue	20	58,371	1,444,920
Other non-current liabilities		74,266	159,355
Total non-current liabilities		8,578,822	10,797,852
Total liabilities		31,278,061	39,435,501
Commitments and contingencies	29		
Redeemable noncontrolling interests	22	301,953	360,010
Bitauto Holdings Limited shareholders' equity			
Ordinary shares (US$0.00004 par value; 1,250,000,000 shares authorized as of December 31, 2017 and 2018, respectively; 72,739,966 shares issued and outstanding as of December 31, 2017 and 2018, respectively)		19	19
Additional paid-in capital		12,220,493	12,782,826
Treasury shares		(20,411)	(333,985)
Statutory reserves		153,538	204,583
Accumulated other comprehensive income		468,257	601,423
Accumulated deficit		(1,493,209)	(2,124,549)
Total Bitauto Holdings Limited shareholders' equity		11,328,687	11,130,317
Noncontrolling interests		8,607,031	8,818,110
Total shareholders' equity		19,935,718	19,948,427
Total liabilities, redeemable noncontrolling interests and shareholders' equity		51,515,732	59,743,938

The accompanying notes are an integral part of the consolidated financial statements.

BITAUTO HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018
(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

	Notes	2016 RMB	2017 RMB	2018 RMB
Revenue		5,772,948	8,751,259	10,579,609
Cost of revenue		(2,077,979)	(3,234,680)	(4,244,398)
Gross profit		3,694,969	5,516,579	6,335,211
Selling and administrative expenses		(3,417,811)	(6,059,046)	(6,370,718)
Product development expenses		(457,367)	(565,702)	(611,113)
Other gains, net	23	70,981	31,576	181,114
Loss from operations		(109,228)	(1,076,593)	(465,506)
Interest income		41,651	93,025	125,875
Interest expense		(52,155)	(92,633)	(79,090)
Share of results of equity investees		(25,640)	(71,866)	(76,810)
Investment loss		(45,012)	(75,097)	(7,889)
Loss before tax		(190,384)	(1,223,164)	(503,420)
Income tax expense	24	(147,569)	(203,824)	(175,896)
Net loss		(337,953)	(1,426,988)	(679,316)
Net loss attributable to noncontrolling interests		(1,895)	(147,991)	(99,021)
Accretion to redeemable noncontrolling interests		205,287	332,117	28,057
Net loss attributable to Bitauto Holdings Limited		(541,345)	(1,611,114)	(608,352)
Net loss per share/ADS attributable to ordinary shareholders	26			
Basic		(8.31)	(23.01)	(8.13)
Diluted		(8.31)	(23.16)	(8.13)
Weighted average number of shares/ADSs	26			
Basic		65,160,205	70,154,910	71,305,353
Diluted		65,160,205	70,154,910	71,305,353
Other comprehensive income/(loss)				
Foreign currency exchange gains/(losses), net of tax of nil		459,430	(353,747)	153,894
Total comprehensive income/(loss), net of tax		121,477	(1,780,735)	(525,422)
Total comprehensive loss attributable to noncontrolling interests		(1,692)	(227,693)	(78,293)
Accretion to redeemable noncontrolling interests		205,287	332,117	28,057
Total comprehensive loss attributable to Bitauto Holdings Limited		(82,118)	(1,885,159)	(475,186)

The accompanying notes are an integral part of the consolidated financial statements.

BITAUTO HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018
(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

	2016 RMB	2017 RMB	2018 RMB
Cash flows from operating activities			
Net loss	(337,953)	(1,426,988)	(679,316)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Investment loss	45,012	75,097	7,889
Unrealized exchange (gains)/losses	(3,410)	(8,375)	15,993
Interest expense	—	31,659	—
Depreciation of property, plant and equipment	55,859	185,344	255,762
Amortization of intangible assets	633,368	688,572	693,761
Deferred income tax	6,863	(46,171)	(150,522)
Share-based compensation	76,981	1,185,839	896,416
(Gains)/Losses on disposal of property, plant and equipment	(22,993)	(14,910)	5,364
Gains on disposal of intangible assets	—	(1,520)	(52,673)
Share of results of equity investees	25,640	71,866	76,810
Gains from guarantee liabilities	—	—	(2,462)
Allowance for doubtful accounts for accounts receivable, and credit losses for finance receivables	102,651	349,185	747,254
Allowance for due from related party	—	15,000	4,000
Changes in assets and liabilities, net of effects of acquisitions and disposals:			
Accounts receivable	(426,800)	(869,699)	(1,259,543)
Bills receivable	37,424	(220,308)	(34,492)
Prepayments and other receivables	(258,732)	(343,794)	(737,248)
Due from related parties	30,996	29,792	(13,185)
Other current assets	(104,313)	(17)	(176,740)
Other non-current assets	(462,033)	(375,823)	(104,618)
Accounts payable	619,769	483,312	745,184
Guarantee liabilities	—	—	110,076
Deferred revenue	(30,886)	116,347	(93,596)
Income tax payable	9,761	30,561	192,625
Due to related parties	35,693	25,194	8,322
Other payables and accruals	424,148	968,509	215,689
Other non-current liabilities	70,351	(20,446)	7,229
Net cash provided by operating activities	527,396	928,226	677,979

The accompanying notes are an integral part of the consolidated financial statements.

BITAUTO HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018
(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

	2016 RMB	2017 RMB	2018 RMB
Cash flows from investing activities			
Placement of time deposits	(2,000)	—	—
Proceeds from maturity of time deposits	100,000	2,000	—
Purchase of investment in equity investees	(280,168)	(120,429)	(754,008)
Disposal of investment in equity investees	—	127,120	15,328
Purchases of property, plant and equipment	(575,015)	(1,728,761)	(230,945)
Purchases of intangible assets	(33,567)	(26,706)	(14,143)
Purchase of convertible notes	—	—	(139,425)
Proceeds from disposal of property, plant and equipment	67,090	242,282	816,860
Proceeds from disposal of intangible assets	445	—	57,400
Acquisition of finance receivables	(13,951,414)	(24,608,984)	(24,705,908)
Collection of finance receivables	2,844,009	9,135,002	17,483,354
Acquisition of subsidiaries, net of cash acquired	(56,513)	(49,585)	—
Net cash used in investing activities	(11,887,133)	(17,028,061)	(7,471,487)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net of issuance costs	977,954	—	—
Proceeds from issuance of subsidiary's ordinary shares, net of issuance costs	—	5,528,755	(3,165)
Proceeds from issuance of subsidiaries' redeemable convertible preference shares, net of issuance costs	2,043,694	1,317,450	—
Repurchase of ordinary shares	—	—	(326,654)
Repurchase of subsidiary's ordinary shares	—	—	(4,367)
Contribution from noncontrolling interests	—	2,995	—
Purchase of noncontrolling interests	—	(36,292)	—
Proceeds from issuance of convertible debt	991,720	—	—
Proceeds from exercise of options	20,772	26,673	1,879
Proceeds from exercise of subsidiary's options	—	—	31
Proceeds from borrowings	7,775,989	23,306,791	23,045,346
Repayment of borrowings	(818,076)	(14,650,880)	(22,710,497)
Proceeds from asset-backed securitization debt	5,499,400	11,142,486	16,956,147
Repayment of asset-backed securitization debt	(1,068,779)	(6,795,858)	(11,947,716)
Net cash provided by financing activities	15,422,674	19,842,120	5,011,004
Effect of exchange rate changes on cash and cash equivalents and restricted cash	293,099	(350,491)	110,364
Increase/(Decrease) in cash and cash equivalents and restricted cash	4,356,036	3,391,794	(1,672,140)
Cash and cash equivalents and restricted cash at beginning of the year	3,291,529	7,647,565	11,039,359
Cash and cash equivalents and restricted cash at end of the year	7,647,565	11,039,359	9,367,219
Supplemental cash flow disclosures:			
Cash paid for income taxes	(130,946)	(219,434)	(133,793)
Cash paid for interest	(71,759)	(1,118,736)	(1,962,269)
Supplemental disclosures of non-cash activities:			
Purchases of property, plant and equipment	1,240	9,471	10,499
Purchases of intangible assets	291	708	1,291
Amounts receivable from exercise of options	(3,488)	(58,415)	(176)
Investment in convertible notes in connection with business cooperation with Yusheng Holdings Limited	—	—	1,645,342
Conversion of convertible debt	—	158,450	—
Conversion of Yixin preferred shares	—	5,323,103	—

The accompanying notes are an integral part of the consolidated financial statements.

BITAUTO HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018
(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

	Ordinary shares		Treasury shares		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income	Retained earnings/ (Accumulated deficit)	Total Bitauto Holdings Limited shareholders' equity	Noncontrolling interests	Total shareholders' equity
	Share	Amount	Share	Amount							
		RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
As of January 1, 2016	63,311,294.0	17	1,724,497.5	(56,690)	7,859,512	57,193	281,594	218,191	8,359,817	264,753	8,624,570
Issuance of ordinary shares	7,414,731.0	2	—	—	978,331	—	—	—	978,333	—	978,333
Beneficial conversion feature in relation to issuance of convertible debt	—	—	—	—	185,712	—	—	—	185,712	—	185,712
Exercise of options and RSUs	—	—	(450,311.0)	14,802	8,510	—	—	—	23,312	—	23,312
Share-based compensation	—	—	—	—	76,981	—	—	—	76,981	—	76,981
Net loss	—	—	—	—	—	—	—	(336,058)	(336,058)	(1,895)	(337,953)
Foreign currency translation gains	—	—	—	—	—	—	459,430	—	459,430	—	459,430
Acquisitions of subsidiaries	—	—	—	—	—	—	1,278	—	1,278	15,689	16,967
Accretion of redeemable noncontrolling interests	—	—	—	—	(205,287)	—	—	—	(205,287)	—	(205,287)
Provision of statutory reserves	—	—	—	—	—	32,648	—	(32,648)	—	—	—
As of December 31, 2016	70,726,025.0	19	1,274,186.5	(41,888)	8,903,759	89,841	742,302	(150,515)	9,543,518	278,547	9,822,065

The accompanying notes are an integral part of the consolidated financial statements.

BITAUTO HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018
(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

	Ordinary shares		Treasury shares		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income	Accumulated deficit	Total Bitauto Holdings Limited shareholders' equity	Noncontrolling interests	Total shareholders' equity
	Share	Amount	Share	Amount							
		RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
As of January 1, 2017	70,726,025.0	19	1,274,186.5	(41,888)	8,903,759	89,841	742,302	(150,515)	9,543,518	278,547	9,822,065
Issuance of ordinary shares	1,000,000.0	—	—	—	—	—	—	—	—	—	—
Exercise of options and RSUs	—	—	(653,397.0)	21,477	(2,001)	—	—	—	19,476	—	19,476
Share-based compensation	—	—	—	—	1,056,653	—	—	—	1,056,653	129,186	1,185,839
Net loss	—	—	—	—	—	—	—	(1,278,997)	(1,278,997)	(147,991)	(1,426,988)
Foreign currency translation losses	—	—	—	—	—	—	(274,045)	—	(274,045)	(79,702)	(353,747)
Conversion of Yixin preferred shares to ordinary shares	—	—	—	—	(947,158)	—	—	—	(947,158)	6,270,261	5,323,103
Proceeds from Yixin IPO, net of issuance costs	—	—	—	—	3,321,055	—	—	—	3,321,055	2,204,022	5,525,077
Transaction with noncontrolling interests	—	—	—	—	12,554	—	—	—	12,554	59,349	71,903
Conversion of convertible debt	1,013,941.0	—	—	—	158,450	—	—	—	158,450	—	158,450
Acquisition of noncontrolling interests in subsidiaries	—	—	—	—	49,298	—	—	—	49,298	(109,671)	(60,373)
Issuance of ordinary shares by the Company's subsidiary	—	—	—	—	—	—	—	—	—	3,030	3,030
Accretion of redeemable noncontrolling interests	—	—	—	—	(332,117)	—	—	—	(332,117)	—	(332,117)
Provision of statutory reserves	—	—	—	—	—	63,697	—	(63,697)	—	—	—
As of December 31, 2017	72,739,966.0	19	620,789.5	(20,411)	12,220,493	153,538	468,257	(1,493,209)	11,328,687	8,607,031	19,935,718

The accompanying notes are an integral part of the consolidated financial statements.

BITAUTO HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018
(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

	Ordinary shares		Treasury shares		Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income	Accumulated deficit	Total Bitauto Holdings Limited shareholders' equity	Noncontrolling interests	Total shareholders' equity
	Share	Amount	Share	Amount							
		RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
As of January 1, 2018	72,739,966.0	19	620,789.5	(20,411)	12,220,493	153,538	468,257	(1,493,209)	11,328,687	8,607,031	19,935,718
Repurchase of ordinary shares	—	—	2,398,780.0	(329,625)	—	—	—	—	(329,625)	—	(329,625)
Exercise of options and RSUs	—	—	(488,321.0)	16,051	(14,059)	—	—	—	1,992	—	1,992
Repurchase of subsidiaries' ordinary shares	—	—	—	—	(1,958)	—	—	—	(1,958)	(2,409)	(4,367)
Exercise/settlement of options and RSUs in subsidiaries	—	—	—	—	(96,762)	—	—	—	(96,762)	97,237	475
Share-based compensation	—	—	—	—	701,872	—	—	—	701,872	194,544	896,416
Share of other comprehensive loss of equity method investees	—	—	—	—	1,297	—	—	—	1,297	—	1,297
Net loss	—	—	—	—	—	—	—	(580,295)	(580,295)	(99,021)	(679,316)
Foreign currency translation gains	—	—	—	—	—	—	133,166	—	133,166	20,728	153,894
Accretion of redeemable noncontrolling interests	—	—	—	—	(28,057)	—	—	—	(28,057)	—	(28,057)
Provision of statutory reserves	—	—	—	—	—	51,045	—	(51,045)	—	—	—
As of December 31, 2018	72,739,966.0	19	2,531,248.5	(333,985)	12,782,826	204,583	601,423	(2,124,549)	11,130,317	8,818,110	19,948,427

The accompanying notes are an integral part of the consolidated financial statements.

1. Principal activities and organization

Bitauto Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in the Cayman Islands. The registered office is located at Scotia Centre, George Town, Grand Cayman, Cayman Islands.

The Company does not conduct any substantial operations of its own, but conducts most of its business through its operating subsidiaries, variable interest entities ("VIEs") and subsidiaries of VIEs established in the People's Republic of China (the "PRC"). The Company owns the equity interest of its operating subsidiaries, VIEs and subsidiaries of VIEs through its subsidiaries established in Cayman Islands and Hong Kong. The Company, its subsidiaries, VIEs and subsidiaries of VIEs are collectively referred to as the "Group".

The Group is principally engaged in the provision of internet content and marketing services, and transaction services in the automobile industry, including advertising and subscription services, transaction services and digital marketing solutions services in the PRC.

On November 16, 2017, Yixin Group Limited ("Yixin"), the Group's subsidiary engaging in automobile transaction services, completed its initial public offering ("IPO") on the Main Board of The Stock Exchange of Hong Kong Limited. The Group continues to take control of Yixin and consolidate Yixin as its controlling shareholder through the voting proxy agreement that the Group entered into with certain other shareholders, and recognizes noncontrolling interests reflecting the shares held by the shareholders other than the Group in the consolidated financial statements. As of December 31, 2018, the Group held 44.8% (2017: 45.2%) of the then outstanding ordinary shares of Yixin.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

1. Principal activities and organization (continued)

As of December 31, 2018, the Company's principal subsidiaries, VIEs and subsidiaries of VIEs are as follows:

Name	Date of incorporation or acquisition	Place of operations	% of direct or indirect economic interest
Bitauto Hong Kong Limited	April 27, 2010	Hong Kong	100
Beijing Bitauto Internet Information Company Limited	January 20, 2006	PRC	100
Dalian Rongxin Financing Guarantees Company Limited	June 6, 2016	PRC	100
Yixin Group Limited	November 19, 2014	Cayman Islands	44.8
Yixin Holding Hong Kong Limited	November 27, 2014	Hong Kong	44.8
Xinche Investment (Shanghai) Company Limited	January 16, 2015	PRC	44.8
Shanghai Yixin Financing Lease Company Limited	August 12, 2014	PRC	44.8
Tianjin Hengtong Jiahe Financing Lease Company Limited.	May 18, 2015	PRC	44.8
Xinjiang Wanxing Information Technology Company Limited	January 24, 2018	PRC	44.8
Beijing Bitauto Information Technology Company Limited	November 30, 2005	PRC	100
Beijing Easy Auto Media Company Limited	March 7, 2008	PRC	100
Beijing Bitauto Interactive Advertising Company Limited	December 12, 2007	PRC	100
Beijing Xinbao Information Technology Company Limited	February 2, 2008	PRC	100
Tianjin Boyou Information Technology Company Limited	May 16, 2014	PRC	100
Beijing Bit EP Information Technology Company Limited ("Bit EP")	June 3, 2011	PRC	100
Tianjin Bida Information Technology Company Limited	January 17,2017	PRC	100
Eminent Success Holdings Group Limited	June 26, 2018	British Virgin Islands	44.8
Rising Champion International Limited	July 10, 2018	Hong Kong	44.8
Tanjin Kars Information Technology Company Limited	June 19, 2018	PRC	44.8
Beijing Yixin Information Technology Company Limited	January 9, 2015	PRC	44.8
Beijing Creative & Interactive Digital Technology Company Limited ("CIG", formerly known as Beijing C&I Advertising Company Limited)	December 30, 2002	PRC	57.1
Beijing Xinchuang Interactive Advertising Company Limited	January 19, 2017	PRC	34.3
Beijing Chehui Technology Company Limited	February 10, 2006	PRC	57.1

1. Principal activities and organization (continued)

Variable interest entities

To comply with the PRC laws and regulations that restrict foreign ownership of companies involved in provision of internet content and other restricted businesses, the Group operates its websites and engages in such restricted businesses in the PRC through certain PRC domestic companies, whose equity interest are held by certain management members of the Company and certain PRC entities ("nominee shareholders"). The Company obtained control over these PRC domestic companies by entering into a series of contractual agreements with these PRC domestic companies and their respective nominee shareholders. These contractual agreements include loan agreements, irrevocable power of attorney, share pledge agreements, exclusive business cooperation agreements and exclusive option agreements. Through these contractual agreements, the Company is entitled to receive a majority of residual returns and is obligated to absorb a majority of the risk of losses of these PRC domestic companies. Based on these contractual agreements, management concluded that these PRC domestic companies are VIEs of the Company, of which the Company is the primary beneficiary. As such, the Group consolidated financial results of VIEs and subsidiaries of VIEs in the Group's consolidated financial statements.

The summary of these contractual agreements are further described as below.

Loan Agreements

Pursuant to the relevant loan agreements, the relevant PRC subsidiaries provided interest-free loans to the respective nominee shareholders of the VIEs. The purpose of the loans is to provide capital and/or registered capital to VIEs in order to develop their businesses. The loan agreements have indefinite terms or certain terms that could be extended upon mutual written consent of the parties.

Irrevocable Power of Attorney

Each nominee shareholder of the VIEs executed an irrevocable power of attorney, appointing the relevant PRC subsidiaries or a person designated by such PRC subsidiaries as his or her attorney-in-fact to attend shareholders' meetings of the respective VIEs, exercise all the shareholder's voting rights, including but not limited to the sale, transfer, pledge or disposition of the shareholder's equity interest in the VIEs, and designate or appoint legal representatives, directors and officers of the relevant VIEs. Each power of attorney remains valid and irrevocable from the date of execution so long as the person remains as the nominee shareholder of the respective VIEs.

Share Pledge Agreements

Pursuant to the share pledge agreements, the nominee shareholders of the VIEs have pledged all of their equity interest in the relevant VIEs to the relevant PRC subsidiaries as collateral for all of the VIEs' and nominee shareholders' payments due to the relevant PRC subsidiaries and to secure their obligations under applicable contractual agreements. Each pledge of shares or equity interest is effective on the date when it is registered with the local administration for industry and commerce and remains effective until all payments due under the relevant exclusive business cooperation agreement or all the obligations under the relevant contractual agreements have been fulfilled by the relevant VIEs. During the term of a pledge, the relevant PRC subsidiaries, the pledgees, may dispose of the pledge if the VIE defaults under the exclusive business cooperation agreement. Each of the relevant PRC subsidiaries also has the right to collect dividends generated by the shares or equity interest pursuant to these pledge agreements. In addition, each nominee shareholder of the relevant VIEs agrees not to transfer or create any new encumbrance adverse to the relevant PRC subsidiaries on the shareholder's equity interest in such VIEs without prior written consent of the relevant PRC subsidiaries.

1. Principal activities and organization (continued)

Exclusive Business Cooperation Agreement

The relevant PRC subsidiaries and relevant VIEs entered into exclusive business cooperation agreements under which the relevant PRC subsidiaries provide the relevant VIEs, on an exclusive basis, with technical, consulting and other services in relation to the respective VIEs' business. The VIEs shall pay service fees to the relevant PRC subsidiaries determined based on several metrics including the type, value and market price of the services provided by the relevant PRC subsidiaries and the operating conditions of the relevant VIEs. During the terms of the agreements, the relevant VIEs have agreed not to accept any consultation and/or services provided by any third party without the relevant PRC subsidiaries' prior written consent. The agreements have certain terms that could be extended upon the relevant PRC subsidiaries' prior written consent, or remain effective unless the relevant PRC subsidiaries terminate them in writing or either the relevant PRC subsidiaries or the relevant VIEs fail to obtain the government's approval for the renewal of the relevant business license.

Exclusive Option Agreements

Pursuant to these exclusive option agreements, each of the nominee shareholders of the VIEs irrevocably granted the relevant PRC subsidiaries an exclusive right to purchase, or designate one or more persons to purchase, the equity interest in the relevant VIEs then held by such nominee shareholder of the respective VIEs. The relevant PRC subsidiaries or their designees may purchase such equity interest at any time, once or at multiple times, in part or in whole at their own sole and absolute discretion to the extent permitted by the PRC laws. The agreements have certain terms that could be extended at the relevant PRC subsidiaries' discretion, or remain effective until all the equity interest held by the nominee shareholders of the VIEs have been transferred or assigned to the relevant PRC subsidiaries or any other persons designated by them.

Risks in relations to the VIE structure

Based on the advice of the Company's PRC legal counsel, the ownership structure and contractual agreement of the VIEs and subsidiaries in the PRC do not violate any existing PRC laws and regulations. Therefore, in the opinion of management, (i) the ownership structure of the Company and the VIEs do not violate any existing PRC laws and regulations;(ii) the contractual agreement with VIEs and their nominee shareholders are valid and binding, and will not result in any violation of PRC laws or regulations currently in effect;(iii) the Group's business operation are in compliance with existing PRC laws and regulations in all material respects.

However, there are uncertainties regarding the interpretation and application of current and future PRC laws and regulations, and the PRC government may in the future take a view that is contrary to the above opinion. If the current ownership structure of the Company and its contractual arrangements with the VIEs and their nominee shareholders were found to be in violation of any existing or future PRC laws or regulations, the Group may be subject to penalties, which may include but not to be limited to, revocation of the Group's business and operating licenses, being required to discontinue or restrict the Group's operations, or being required to restructure the Group's ownership structure or operations. These penalties may result in a material and adverse effect on the Group's ability to conduct its operations. In such cases, the Company may not be able to operate or control the VIEs, which may result in deconsolidation of the VIEs.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

1. Principal activities and organization (continued)

The following financial information of the VIEs and subsidiaries of VIEs in the PRC was included in the Group's consolidated financial statements with intercompany transactions eliminated:

	As of December 31,	
	2017	2018
	RMB	RMB
Total assets	7,287,858	8,125,756
Total liabilities	3,682,006	4,427,121

	For the year ended December 31		
	2016	2017	2018
	RMB	RMB	RMB
Revenue	4,389,398	4,419,967	4,111,341
Net income/(loss)	126,673	(111,574)	49,738

	For the year ended December 31		
	2016	2017	2018
	RMB	RMB	RMB
Net cash provided by/(used in) operating activities	603,227	660,690	(334,465)
Net cash (used in)/provided by investing activities	(365,253)	57,568	(172,280)
Net cash provided by/(used in) financing activities	39,107	(426,603)	338,000

As of December 31, 2017 and 2018, total assets of the Group's VIEs and subsidiaries of VIEs were mainly consisting of cash and cash equivalents, accounts receivable, net, prepayments and other receivables, investment in equity investees, property, plant and equipment, net, and intangible assets, net. As of December 31, 2017 and 2018, total liabilities of the VIEs and subsidiaries of VIEs were mainly consisting of accounts payable, other payables and accruals and short term borrowings. These balances have been reflected in the Group's consolidated financial statements with intercompany transactions eliminated.

1. Principal activities and organization (continued)

In accordance with contractual agreements, the Company has the power to direct activities of the VIEs and subsidiaries of VIEs and can have assets transferred out of the VIEs and the subsidiaries of VIEs. Therefore, the Company considers that there is no asset in any of the consolidated VIEs and subsidiaries of VIEs that can be used only to settle obligations of these entities, except for registered capital and PRC statutory reserves amounting to RMB641.3 million as of December 31, 2018 (2017: RMB577.0 million). Creditors of the VIEs and subsidiaries of VIEs do not have recourse to the general credit of the Company for any of the liabilities of the consolidated VIEs and subsidiaries of VIEs.

Currently, there is no contractual arrangement that requires the Company to provide any additional financial support to the VIEs and subsidiaries of VIEs. As the Company conducts its business primarily based on the licenses and approvals held by its VIEs and subsidiaries of VIEs, the Company may provide additional financial support on a discretionary basis in the future.

In addition to above variable interest entities the Company consolidated through contractual arrangements, the Company also established a number of asset-backed securitization vehicles to issue debt securities to third party investors. The vehicles are considered variable interest entities in accordance with ASC 810 and the Company are considered primary beneficiary of such variable interest entities. Accordingly, the Company consolidated these asset-backed securitization vehicles.

2. Summary of significant accounting policies

(a) Basis of presentation

The consolidated financial statements of the Group are prepared in accordance with accounting principles generally accepted in the United States of America (‘‘U.S. GAAP’’).

(b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the VIEs and subsidiaries of VIEs for which the Company is the ultimate primary beneficiary.

A subsidiary is an entity in which (i) the Company directly or indirectly controls more than 50% of the voting power; or (ii) the Company has the power to appoint or remove the majority of the members of the board of directors or to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies.

A VIE is an entity in which the Company, or its subsidiaries, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with, ownership of the entity, and therefore the Company or its subsidiaries are the primary beneficiary of the entity.

All transactions and balances among the Company, its subsidiaries, the VIEs and subsidiaries of VIEs have been eliminated upon consolidation. The results of subsidiaries, the VIEs and subsidiaries of VIEs acquired or disposed of during the year are recorded in the consolidated statements of comprehensive income/(loss) from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2. Summary of significant accounting policies (continued)

(c) Business combinations and noncontrolling interests

The Group accounts for its business combinations using the acquisition method of accounting in accordance with Accounting Standards Codification (''ASC'') 805 ''Business Combinations''. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets and liabilities acquired or assumed are measured separately at their fair values as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total costs of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the acquiree, the difference is recognized directly in the consolidated statements of comprehensive income/(loss). During the measurement period, which can be up to one year from the acquisition date, the Group may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of comprehensive income/(loss).

In a business combination considered as a step acquisition, the Group remeasures the previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in the consolidated statements of comprehensive income/(loss).

For the Company's majority-owned subsidiaries, VIEs and subsidiaries of VIEs, a noncontrolling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Company. Noncontrolling interests are classified as a separate line item in the equity section of the Group's consolidated balance sheets and have been separately disclosed in the Group's consolidated statements of comprehensive income/(loss) to distinguish the interests from that of the Company.

(d) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates are used for, but not limited to assessment for fair value of assets and liabilities acquired in business combinations, estimating useful lives of intangible assets, assessment for impairment of long-lived assets, intangible assets and goodwill, investment in equity investees, assessment for fair value of investment in convertible notes , determining allowance for doubtful accounts for accounts receivable, allowance for credit losses for finance receivables, assessment for fair value of guarantee liabilities, valuation and recognition of share-based compensation and realization of deferred tax assets. The Group bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

2. Summary of significant accounting policies (continued)

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the Chief Executive Officer of the Group. The Group managed its business in three reportable segments, namely advertising and subscription business, transaction services business and digital marketing solutions business.

(f) Foreign currency translation

The Company, its subsidiaries, VIEs and subsidiaries of VIEs individually determine their functional currency based on the criteria of ASC 830 "Foreign Currency Matters". The functional currencies of the Company and its subsidiaries outside China are the U.S. dollar ("US$") and the Hong Kong dollar ("HKD"), and the functional currency of PRC subsidiaries, VIEs and subsidiaries of VIEs is the RMB. Since the Group's operations are primarily denominated in the RMB, the Group has chosen the RMB as the reporting currency for the consolidated financial statements.

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Exchange gains or losses arising from foreign currency transactions are recorded in the consolidated statements of comprehensive income/(loss).

The financial statements of the entities with non-RMB functional currencies are translated into RMB using the exchange rate as of the balance sheet date for assets and liabilities, average exchange rate for the year for income and expense items, and historical exchange rate for equity items. Translation gains or losses arising from the translation are recognized in accumulated other comprehensive income as a component of shareholders' equity.

2. Summary of significant accounting policies (continued)

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, time deposits and highly liquid investments with an original maturity of three months or less.

(h) Restricted cash

Cash that is restricted as to withdrawal for use or pledged as security is reported separately on the face of the consolidated balance sheets. The Group held restricted cash of RMB1.48 billion and RMB4.79 billion as of December 31, 2017 and 2018, respectively, which were primarily pledged for bank borrowings, guarantees, asset-backed securitization debt and bills payable. Please refer to Note 6 for further details.

The Group provides loan facilitation services to facilitate auto loans to car buyers offered by auto loan facilitation financing partners. The auto loan facilitation financing partners offer financing solutions to car buyers. The Group provides guarantee in the event of default (please refer to Note 2 (v) for further details). As a result, the Group, as the guarantor, is required to maintain a separate guarantee funds, held as an escrow account with the auto loan facilitation financing partners. These guarantee funds are required by different financial institutions to be maintained at certain percentage of the balance of loans outstanding.

From January 1, 2018, the Group adopted ASU No. 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash”, which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts presented in the statement of cash flows. As a result of new accounting guidance adopted on January 1, 2018, the consolidated statements of cash flows was retrospectively adjusted to include restricted cash in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows.

(i) Accounts receivable, net

Accounts receivable are amounts due from customers for services performed or merchandise sold in the ordinary course of business. If collection of accounts receivable is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable are recorded net of allowance for doubtful accounts. An allowance for doubtful accounts is recorded in the period when a loss is probable based on an assessment of specific evidence indicating troubled collection, such as the accounts aging, financial conditions of the customer and industry trend.

(j) Bills receivable

Bills receivable represent short-term notes receivables issued by reputable financial institutions that entitle the Group to receive the full face amount from the financial institutions at maturity, which generally range from three to six months from the date of issuance.

2. Summary of significant accounting policies (continued)

(k) Finance receivables, net

The Group provides automobile financing lease services to individual customers and automobile dealers. The net investment of the lease will be recorded as finance receivables upon the inception of the lease. The net investment in a lease consists of the minimum lease payments, net of executory costs plus the unguaranteed residual value, less the unearned interest income plus the unamortized initial direct costs related to the lease. The accrued interests are also included in the finance receivables balance. Over the period of a lease, each lease payment received is allocated between the repayment of the net investment in the lease and lease income based on the effective interest method so as to produce a constant rate of return on the net investment in the lease. The lease income is recorded as the Group's revenue in the consolidated statements of comprehensive income/(loss). Initial direct costs of the capital leases are amortized over the lease term by adjusting against the related lease income. The net investment in the leases, net of allowance for credit losses, is presented as finance receivables and classified as current or non-current assets in the balance sheets based on the duration of the remaining lease terms. The Group's finance receivables are typically secured with automobiles in the lease arrangements. The allowance for credit losses is based on a systematic, ongoing review and valuation performed as part of the credit-risk evaluation process.

The Group reviews credit quality of its finance receivables based on customer repayment activities, such as the historical loss probability and days past due information. The entire balance of a finance receivable is considered contractually past due if the minimum required payment is not received by the contractual repayment day. If any delinquency arises, the Group will consider initiating collection process, which includes (a) making phone calls and sending collection notice to the customers; (b) outsourcing to collection specialists to conduct repossession of collateral automobiles; (c) lawsuit or disposal of collateral. As of December 31, 2017 and 2018, the fair value of collateral automobile is greater than carrying amount of finance receivable. The Group has not established a practice of modifying the contractual payment terms, or entering into any troubled debt restructurings of the finance receivables with its customers.

Accrued lease income on finance receivables is calculated based on the effective interest rate of the net investment. Finance receivables are placed on non-accrual status upon reaching past due status for more than 90 days. When a finance receivable is placed on non-accrual status, the Group stops accruing interest. The finance receivables in non-accrual status were RMB245.7 million and RMB411.6 million as of December 31, 2017 and 2018, respectively. Lease income is subsequently recognized only upon the receipt of cash payments. The Group determines it is probable that, certain finance receivables that are past due for 180 days after the above mentioned collection process has been administered, will become uncollectable, and writes off such finance receivables.

2. Summary of significant accounting policies (continued)

(l) Investment in equity investees

Investment in equity investees represents the Group's investments in privately-held companies. The Group applies the equity method to account for an equity investment, in common stock or in-substance common stock, according to ASC 323 ''Investment - Equity Method and Joint Ventures'', over which it has significant influence but does not own a majority equity interest or otherwise control.

An investment in in-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to that entity's common stock. The Group considers subordination, risks and rewards of ownership and obligation to transfer value when determining whether an investment in an entity is substantially similar to an investment in that entity's common stock.

For other equity investments that do not have readily determinable fair values and over which the Group neither has significant influence nor control through investment in common stock or in-substance common stock, the cost method is used for the year ended December 31, 2017. From January 1, 2018, the Group adopted ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Under the equity method, the Group's share of the post-acquisition profits or losses of the equity investee is recognized in the consolidated statements of comprehensive income/(loss) and its share of post-acquisition movements in accumulated other comprehensive income is recognized in shareholders' equity. The excess of the carrying amount of the investment over the underlying equity in net assets of the equity investee represents goodwill and intangible assets acquired. When the Group's share of losses in the equity investee equals or exceeds its interest in the equity investee, the Group does not recognize further losses, unless the Group has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee.

From time to time, the rights on certain investments in which the Group has significant influence were modified with new rounds of financing. These modifications may be additions or removals of certain rights. As a result of such modification, these equity investments, which were accounted for using equity method, were reclassified as investments without readily determinable fair value, or vice versa. The carrying amount of the investments was remeasured upon the reclassification and a deemed disposal gain or loss was recognized in the investment loss in the consolidated statements of comprehensive income/(loss).

The Group continually reviews its investments in equity investees to determine whether a decline in fair value below the carrying value is other than temporary. The primary factors the Group considers in its determination are the length of time that the fair value of the investment is below the carrying value; the financial condition, operating performance and the prospects of the equity investee; and other company specific information such as recent financing rounds. If the decline in fair value is deemed to be other than temporary, the carrying value of the equity investee is written down to fair value, which is reflected in share of results of equity investees and investment loss in the consolidated statements of comprehensive income/(loss).

2. Summary of significant accounting policies (continued)

(m) Investment in convertible notes

The financial instruments guidance in ASC 825-10 permits reporting entities to apply the fair value option on an instrument-by-instrument basis. Therefore, a reporting entity can elect the fair value option for certain instruments but not others within a group of similar instruments. Such fair value option permits the irrevocable election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The investments accounted for under the fair value option are carried at fair value with realized or unrealized gains and losses recorded in the consolidated statements of comprehensive income/(loss). The Group has elected the fair value option to account for investment in convertible notes. The convertible notes the Group held were interest free. Please refer to Note 10 for further details.

(n) Property, plant, and equipment, net

Property, plant, and equipment are stated at cost less accumulated depreciation and impairment if any. Depreciation is computed using the straight-line method with no residual value based on the estimated useful lives of the various classes of assets, which range as follows:

Computers and servers	3 – 5 years
Automobiles for Group uses	5 years
Automobiles for operating leases	5 years
Furniture and fixtures	3 – 5 years
Leasehold improvements	shorter of remaining lease period or estimated useful life

Costs of repairs and maintenance are expensed as incurred and asset improvements are capitalized. The cost and related accumulated depreciation of assets disposed of or retired are removed from the accounts, and any resulting gain or loss is reflected in other gains, net in the consolidated statements of comprehensive income/(loss).

2. Summary of significant accounting policies (continued)

(o) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized but is tested for impairment on an annual basis as of December 31, or more frequently if events or changes in circumstances indicate that it might be impaired. The Group has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. In the qualitative assessment, the Group considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. The Group will perform the quantitative impairment test if the Group bypasses the qualitative assessment, or based on the qualitative assessment, if it is more likely than not that the fair value of each reporting unit is less than the carrying amount.

In performing the two-step quantitative impairment test, the first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying amount of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for the purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets, liabilities and goodwill to reporting units, and determining the fair value of each reporting unit.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

2. Summary of significant accounting policies (continued)

(p) Intangible assets, net

Intangible assets are stated at cost less accumulated amortization and impairment if any. Intangible assets acquired in a business combination are recognized initially at fair value at the date of acquisition. Intangible assets with an indefinite useful life are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired in accordance with ASC subtopic 350-30 ("ASC 350-30"), Intangibles-Goodwill and Other: General Intangibles Other than Goodwill. Separately identifiable intangible assets that have determinable lives continue to be amortized over their estimated useful lives using the straight-line method as follows:

Purchased software	5 - 10 years
Digital Sales Assistant system	10 years
Domain names	10 years
Brand name	10 - 15 years
Customer relationship	2 - 15 years
Business cooperation	5 years
Others	5 - 10 years
Trademark and lifetime membership	10 years / Indefinite

(q) Impairment of long-lived assets

The Group reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(r) Borrowings

Borrowings are recognized initially at fair value, net of upfront fees, debt issuance costs, and debt discounts or premiums. Upfront fees, debt issuance costs, and debt discounts or premiums are recorded as a reduction of the proceeds received and the related accretion is recorded as interest expense in the consolidated statements of comprehensive income/(loss) over the estimated term of the facilities and borrowings using the effective interest method.

2. Summary of significant accounting policies (continued)

(s) Asset-backed securitization debt

The Group securitizes finance receivables arising from its consumers through the transfer of those assets to asset-backed securitization vehicles. The securitization vehicles usually issue senior tranche debt securities to third party investors, collateralized by the transferred assets, and subordinate tranche debt securities to the Group. In limited circumstances, the Group may also subscribe a portion of the senior tranche debt securities. The asset-backed debt securities issued by the securitization vehicles to third party investors are recourse to the Group. The securitization vehicles are considered consolidated variable interest entities of the Group, and the asset-backed debt securities subscribed by third party investors are reported as current and non-current liabilities in the consolidated balance sheets based on their respective expected repayment dates.

(t) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

(u) Bills payable

Bills payable represents short-term bank acceptance notes issued by financial institutions that entitle the holder to receive the stated amount from the financial institutions at the maturity date of the notes. The Group has utilized bills payable to settle amounts owed to the suppliers.

2. Summary of significant accounting policies (continued)

(v) Guarantee liabilities

The Group provides loan facilitation services to facilitate auto loans to car buyers offered by auto loan facilitation financing partners. The auto loan facilitation financing partners offer financing solutions to car buyers ("borrowers") and the Group provides guarantee in the event of default on the full repayment of principal and any accrued interests.

The guarantee is within the scope of ASC Topic 460 "Guarantees". The portion of the contract consideration that relates to ASC 460 must first be allocated to the guarantee, with the residual portion of the transaction price being recorded under ASC Topic 606, "Revenue from Contracts with Customers". The liability is recognized at fair value at the inception of the guarantee.

Subsequent to the initial recognition of the guarantee liability, the Group's guarantee obligations are measured in a combination of two components: (i) ASC 460 component and (ii) ASC 450 (ASC Topic 450 "Contingencies") component. The liability recorded based on ASC 460 is determined on a contract-by-contract basis and is reduced as the Group is released from the underlying risk, meaning as the loan is repaid by the borrowers or when the financial institutions are compensated in the event of a default. Generally, the liability is reduced by a systematic and rational amortization method, e.g. over the term of the loan. This component is a stand ready obligation which is not subject to the probable threshold used to record a contingent obligation. The other component is a contingent liability determined using historical experience of borrower defaults, representing the obligation to make future payments, measured using the guidance per ASC 450. Subsequent to the initial recognition, the guarantee obligation is measured at the greater of the amount determined per ASC 460 (guarantee liability) and the amount determined based on ASC 450 (contingent liability). Any gains or losses from guarantee liability is recognized in other gains, net in the consolidated statements of comprehensive income/(loss).

As of December 31 2018, the amount of maximum potential future payments that the Group could be required to make under the guarantee was RMB9.14 billion. Maximum potential future payments are approximately the total outstanding auto loan balance that the Group facilitated.

(w) Convertible debt

The Group determines the appropriate accounting treatment of its convertible debt in accordance with the terms in relation to the conversion feature, call and put option, and beneficial conversion feature. After considering the impact of such features, the Company may account for such instrument as a liability in its entirety, or separate the instrument into debt and equity components following the respective guidance described under ASC 815 "Derivatives and Hedging" and ASC 470 "Debt".

The debt discount, if any, together with related issuance cost are subsequently amortized as interest expense, using the effective interest method, from the issuance date to the earliest conversion date. Convertible debt is classified as a current liability if their due date is or will be within one year from the balance sheet date.

2. Summary of significant accounting policies (continued)

(x) Fair value

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The Group measures certain financial assets, including the investments under the equity method, and investments without readily determinable fair value, investment in convertible notes, intangible assets, goodwill and property, plant and equipment, at fair value when an impairment charge is recognized. And the fair value of the guarantee liability recorded at the inception of the loan was estimated based on the third-party appraisal's report.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

(y) Treasury shares

The Company's equity instruments that are repurchased are recognized at cost and deducted from equity as treasury shares. No gain or loss is recognized in the consolidated statements of comprehensive income/(loss) on the purchase, sale, issue or cancellation of the Company's equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them. In 2018, the board of directors approved a US$150.0 million share repurchase plan. The share repurchase plan does not require the Company to acquire a specific number of shares and may be suspended or discontinued at any time. The share repurchased during the years ended December 31, 2016, 2017 and 2018 was nil, nil and 2,398,780, respectively.

2. Summary of significant accounting policies (continued)

(z) Statutory reserves

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Company's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from their net income based on PRC accounting standards to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the net income based on PRC accounting standards until such appropriations for the fund reach 50% of the registered capital of the entity. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the discretion of the respective entity.

In addition, in accordance with the PRC Company Laws, the Company's VIEs and subsidiaries of VIEs, registered as Chinese domestic companies, must make appropriations from their net income based on PRC accounting standards to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the net income based on PRC accounting standards until such appropriations for the fund reach 50% of the registered capital of the entity. Appropriation to the discretionary surplus fund is made at the discretion of the respective entity.

None of these reserves are allowed to be transferred to the Company in terms of dividends, loans or advances, nor can they be distributed except under liquidation.

2. Summary of significant accounting policies (continued)

(aa) Revenue recognition

Starting from January 1, 2018, the Group adopted ASC Topic 606 Revenue from Contracts with Customers ("ASC 606") using the modified retrospective method to contracts that were not completed as of the date of adoption. As such, the comparative information has not been restated and continues to be reported under ASC Topic 605 Revenue Recognition ("ASC 605") in effect for periods prior to January 1, 2018. In accordance with ASC 606, VAT was presented on a net basis instead of on a gross basis under ASC 605, which meant VAT was classified from cost of revenues to net against revenues and VAT refunds were presented as other gains, net. Other than the presentation of VAT, the impact from adopting ASC 606 was not material to the Group's consolidated financial statements as of and for the year ended December 31, 2018. There was no cumulative effect on the opening balance of accumulated deficit upon adoption of ASC 606.

The following table illustrates the effect of the adoption of ASC 606 by presenting a comparison of selected line items from the Group's consolidated statement of comprehensive income/(loss) for the year ended December 31, 2018 (amounts in thousands of RMB):

	For the year ended December 31, 2018		
	Under ASC 605	Effects of new revenue guidance	Under ASC 606
Revenue	11,384,102	(804,493)	10,579,609
Cost of revenue	(4,977,386)	732,988	(4,244,398)
Gross profit	6,406,716	(71,505)	6,335,211
Other gains, net	109,609	71,505	181,114
Loss from operations	(465,506)	—	(465,506)
Net loss	(679,316)	—	(679,316)

Under ASC 606, revenue is recognized when control of the promised goods or services was transferred to the customers, in an amount that reflects the consideration the Group expected to be entitled to in exchange for those goods or services. The recognition of revenue involves certain management judgments including identification of performance obligations, standalone selling price for each performance obligation, etc. Also revenue arrangements are assessed to determine if it is acting as principal or agent. Revenue is recognized at a point in time or over time when the Group satisfies a performance obligation. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.

The Group determines revenue recognition through the following steps:

Step 1: identification of the contract, or contracts, with a customer;
Step 2: identification of the performance obligations in the contract;
Step 3: determination of the transaction price;
Step 4: allocation of the transaction price to the performance obligations in the contract; and
Step 5: recognition of revenue when, or as, the Group satisfies a performance obligation.

2. Summary of significant accounting policies (continued)

(aa) Revenue recognition (continued)

Advertising and subscription services

Advertising services

The Group provides advertising services and also organizes promotional events to help customers to promote their products. Revenue is recognized when the performance obligation is satisfied. Revenue from advertising services is recognized when the advertisements are published over the stated display period. Revenue from organizing promotional events is recognized at a point in time when the performance obligation is satisfied. Revenues from advertising services are reported at a gross amount.

Subscription services

The Group provides web-based and mobile-based integrated digital marketing solutions, via SaaS platform, to dealer customers in China. Such SaaS platform enables dealer subscribers to create their own online showrooms, list pricing and promotional information, provide dealer contact information, place advertisements and manage customer relationships, which help them effectively market their automobiles to consumers. The revenue is recognized on a straight-line basis over the subscription or listing period when the performance obligation is satisfied. Revenues from dealer subscription and listing services are reported at a gross amount.

Transaction services

Automobile financing lease and operating lease services

The Group provides automobile financing lease services to individual customers and automobile dealers through two models: direct financing lease and sales-and-leaseback. In a direct financing lease arrangement, revenue is recognized over the lease period on a systematic and rational basis so as to produce a constant periodic rate of return on the net investment in the financing leases. In a sales-and-leaseback arrangement, the transaction is in substance a collateral financing and revenue is recognized over the lease period using the effective interest rate method. The Group also provides automobile operating lease services to individual and corporate customers. Revenue from these services is recognized on a straight-line basis over the lease period. This revenue is not subject to the revenue standard for contracts with customers and remains separately accounted for under existing lease accounting guidance. Please refer to Note 2 (k)&(hh) for further details.

2. Summary of significant accounting policies (continued)

(aa) Revenue recognition (continued)

Loan facilitation services

The Group provides loan facilitation services to facilitate auto loans to car buyers offered by auto loan facilitation financing partners. The Group recognizes revenue from loan facilitation services when assisting the customers to complete an automobile financing transaction. The Group recognizes revenue when performance obligation has been satisfied at a point in time, being when a transaction is fulfilled and completed.

Other transaction services

The Group recognizes revenue from direct automobile sales to automobile dealers and institutional customers. The revenue is recorded on a gross basis as the Group acts as the principal, is primarily responsible for the sales arrangements and is subject to inventory risk. Revenue from direct automobile sales is recognized when a sales contract has been executed and the automobiles have been delivered and control is transferred.

Digital marketing solutions services

The Group receives commissions for assisting customers in placing advertisements on media vendor websites ("advertising agent services"), and receives performance-based rebates from the media vendors, equal to a percentage of the purchase price for qualifying advertising space purchased and utilized by the customers the Group represents. The Group also provides project-based services such as public relations, marketing campaign and digital image creation. Revenue is recognized when the performance obligation is satisfied. The net commission revenue from advertising agent services is recognized when the advertisements are published over the stated display period. Revenue from performance-based rebates is recognized when the amount of these rebates are probable and reasonably estimable. Revenues from other services are recognized when the performance obligations are satisfied.

2. Summary of significant accounting policies (continued)

(aa) Revenue recognition (continued)

Cost to obtain a contract

The incremental direct costs of obtaining a contract primarily consist of commissions associated with loan facilitation services, which recognized as cost of revenue when incurred.

Contract balances

Payment terms and conditions vary by contract type, although terms generally include a requirement of prepayment or payment within one year or less. Timing of revenue recognition may differ from the timing of invoicing to customers, and the Group generally does not provide significant financing terms. Accounts receivable represents amounts invoiced, and revenue recognized prior to invoicing when the Group has satisfied its performance obligations and has the unconditional right to consideration.

Receipts in advance relates to unsatisfied performance obligations at the end of the year. The Group invoices its customers based on the payment terms stipulated in the executed subscription agreements, which generally ranges from several months to one year. The Group records amounts received prior to revenue recognition in advances from customers, which is included in the other payables and accruals line item in the Group's consolidated balance sheets. The beginning balance of advances from customers of RMB898.7 million in relation to dealer subscriptions and listing services was fully recognized as revenue for the year ended December 31, 2018.

(bb) Cost of revenue

Cost of revenue mainly includes fees paid to the Group's business partners to distribute the dealer customers' automobile pricing and promotional information, direct service cost, funding costs, commissions associated with loan facilitation services, cost of automobiles sold and turnover taxes and related surcharges.

2. Summary of significant accounting policies (continued)

(cc) Selling and administrative expenses

Selling and administrative expenses consist primarily of salaries and benefits for the sales and marketing personnel and administrative personnel, sales and marketing expenses, share-based compensation expense, depreciation and amortization of assets and other expenses for daily operations.

Advertising expenditures are expensed as incurred and are included in selling and administrative expenses. Total advertising expenditures were RMB363.8 million, RMB631.7 million and RMB631.3 million for the years ended December 31, 2016, 2017 and 2018.

(dd) Product development expenses

Product development expenses consist primarily of staff costs related to personnel involved in the development and enhancement of the Group's service offerings on its websites, mobile application and related software. The Group recognizes these costs as expenses when incurred, unless they result in significant additional functionality, in which case they are capitalized.

(ee) Share-based compensation

The Group's share-based awards mainly comprise share options and RSUs. In accordance with ASC 718 "Compensation — Stock Compensation", share-based awards granted to employees are measured at fair value on grant date and share-based compensation expense is recognized (i) immediately at the grant date if no vesting conditions are required, or (ii) using the graded vesting method, net of estimated forfeitures, over the requisite service period.

All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

If a share-based award is modified after the grant date, additional compensation expenses are recognized in an amount equal to the excess of the fair value of the modified equity instrument over the fair value of the original equity instrument immediately before modification. The additional compensation expenses are recognized immediately on the date of the modification or over the remaining requisite service period, depending on the vesting status of the award.

The Group determined the fair value of share options with the assistance of independent third-party valuation firms. The binomial option pricing model was applied in determining the fair value of share options. The fair value of RSUs granted subsequent to the initial public offering will be the price of publicly traded shares on the date of grant.

The Group determined the fair value of share options granted by its subsidiaries with the assistance of independent third-party valuation firms. The binomial option pricing model or discount cash flow model were applied in determining the fair value of share options. The Group's subsidiary also granted RSUs subsequent to the initial public offering. The fair value of such RSUs will be the price of publicly traded shares on the date of grant.

2. Summary of significant accounting policies (continued)

(ff) Employee Benefits - PRC contribution scheme

Full-time employees of the Group in the PRC participate in a government mandated contribution scheme pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of the employees' salaries. The Group has no legal or constructive obligations for further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to their current and past services. The total expenses for the scheme were RMB282.2 million, RMB364.5 million and RMB424.3 million for the years ended December 31, 2016, 2017 and 2018, respectively.

(gg) Income taxes

The Group accounts for income taxes using the asset and liability method, under which deferred income taxes are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Valuation allowance is provided on deferred tax assets to the extent that it is more likely than not that the asset will not be realizable in the foreseeable future.

The Group adopts ASC 740-10-25 ''Income Taxes'' which prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. The Group did not have significant unrecognized uncertain tax positions or any unrecognized liabilities, interest or penalties associated with unrecognized tax benefit for the years ended December 31, 2016, 2017 and 2018.

2. Summary of significant accounting policies (continued)

(hh) Leases

Each lease is classified at the inception date as either a capital lease or an operating lease.

A lease is a capital lease if any of the following conditions exist: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. All other leases are accounted for as operating leases.

Where the Group is a lessee, a capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. The Group records the leased property as property, plant and equipment, net on the consolidated balance sheets and depreciated in the same manner as the other equipment. Under operating lease, the payments made by the lessee are charged to the consolidated statements of comprehensive income/(loss) on a straight-line basis over the terms of underlying lease.

Where the Group is a lessor, direct financing leases and leaseback transactions are accounted for as a capital lease if the transaction satisfies one of the four capital lease conditions as discussed above. Revenue is recognized over the lease period on a systematic and rational basis so as to produce a constant periodic rate of return on the net investment in the financing leases. Under operating lease, the payments received by the lessor are recorded as lease income in the period in which the payment is received or becomes receivable.

(ii) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

2. Summary of significant accounting policies (continued)

(jj) Earnings per share

Basic earnings per share is computed by dividing net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per ordinary share is computed by dividing the net loss attributable to ordinary shareholders for the year by the weighted average number of ordinary and potential ordinary shares outstanding during the year, if the effect of potential ordinary shares is dilutive. Potential ordinary shares for the Company include incremental shares of ordinary shares issuable upon the exercise of share options and RSUs, and conversion of convertible debt.

Additionally, for purposes of calculating basic and diluted earnings per share, Yixin's net income/(loss) attributable to Bitauto Holdings Limited is adjusted as follows:

For the purpose of calculating basic earnings per share, Yixin's net income/(loss) attributable to Bitauto Holdings Limited was determined using the two-class method by allocating Yixin's net income/(loss) to each class of participating shares issued by Yixin, including the outstanding ordinary shares and redeemable convertible preference shares, prior to the IPO of Yixin.

For the purpose of calculating diluted earnings per share, the potentially issuable shares of Yixin, namely (i) the redeemable convertible preference shares, prior to the IPO of Yixin, and (ii) the share options and RSUs granted by Yixin, are assessed for dilutive impact. The diluted earnings per share will be adjusted if the impact is deemed dilutive.

3. Recent accounting pronouncements

In February, 2016, the FASB issued ASU No. 2016-02, "Leases". ASU No. 2016-02 specifies the accounting for leases. For operating leases, this standard requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard is effective for public companies for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. In July 2018, the FASB issued ASU No. 2018-11, "Leases - Targeted Improvements" (ASU 2018-11), which addresses implementation issues related to the new lease standard. This guidance is effective for the Group as of January 1, 2019 and the Group will adopt this guidance using the modified retrospective approach with prior periods still accounted for under ASC Topic 840 Leases ("ASC 840"). This guidance includes a number of optional practical expedients that the Group may elect to apply, including an expedient that permits lease agreements that are twelve months or less to be excluded from the balance sheet. Having summarized lease agreements the Group entered into and identified any practical expedients applicable, the Group noted the most significant impact from adoption of the new lease standards is on the operating lease agreements that the Group entered into as a lessee, where a right-of-use asset and a lease liability shall be recorded on its consolidated balance sheets without any impact on the accumulated deficit upon adoption. The Group is currently evaluating the quantitative impact that the standard will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326)", which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. Topic 326 introduces "expected credit loss" model, which is different from the "incurred loss" model the Group currently applied. It will incorporate both available forward looking information and historical pattern to estimate the lifetime expected credit losses for all finance receivables, including those that have not become past due. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. While the Group is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures, it is generally expected that the adoption will likely increase the level of provision for credit losses of finance receivables.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13") which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, the Group will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. Early adoption is permitted. either the entire standard or only the provisions that eliminate or modify the requirements. The Group is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment". The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

4. Concentration of risks

(a) Concentration of customers

There were no customers that individually represented greater than 10% of the total revenue for the years ended December 31, 2016, 2017 and 2018, respectively.

(b) Concentration of credit risks

Financial instruments that potentially subject the Group to significant concentration of credit risk consist principally of cash and cash equivalents, restricted cash, accounts receivable and finance receivables.

As of December 31, 2016, 2017 and 2018, substantially all of the Group’s cash and cash equivalents and restricted cash were held by major financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality. Under the new Bankruptcy Law effective in 2007, a Chinese bank may go into bankruptcy. In the event of bankruptcy of one of the banks which holds the Group’s deposits, it is unlikely to claim its deposits bank in full since it is unlikely to be classified as a secured creditor based on PRC laws.

Accounts receivable and finance receivables are typically unsecured or secured with automobiles for financing lease and derived from revenue earned from customers in the PRC, which are exposed to credit risk. The risk is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balance. The Group maintains reserves for estimated credit losses and these losses have generally been within its expectations.

The Group is also exposed to credit risk in relation to investment in convertible notes measured at fair value. The maximum exposure at the end of the reporting period is the carrying amount of the investment.

(c) Interest rate risk

The Group’s interest rate risk arises from the Group’s borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

(d) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to consistently monitor the Group’s liquidity risk and to maintain adequate cash and cash equivalents to meet the Group’s liquidity requirements.

The remaining contractual maturities (or the earliest date a financial liability may become payable in the absence of a fixed maturity date) at the balance sheet date mainly includes the Group’s financial assets such as cash and cash equivalents, restricted cash, accounts receivable, bills receivable, finance receivables, investment in convertible notes and other financial assets; financial liabilities such as borrowings, asset-backed securitization debt, accounts payable, bills payable, convertible debt and other financial liabilities; and operating lease commitments based on contractual undiscounted cash flows.

4. Concentration of risks (continued)

(e) Foreign currency exchange rate risk

In July 2005, the PRC government changed its decades-old policy of pegging the value of the RMB to the US$, and the RMB appreciated more than 20% against the US$ over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the US$ remained within a narrow band. Since June 2010, the RMB has fluctuated against the US$, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the US$ in the future.

(f) Currency convertibility risk

Substantially all of the Group's businesses are transacted in RMB, which is not freely convertible into foreign currencies. In the PRC, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through the PBOC or other PRC foreign exchange regulatory bodies and require certain supporting documentation in order to effect the remittance.

5. Significant equity transactions and acquisitions

Acquisition of additional interest in Target Net (Beijing) Technology Company Limited ("Target Net")

As of December 31, 2015 and 2016, the Group held 51% equity interest in Target Net, an unlisted entity based in the PRC and involved in the provision of internet information distribution services. In October 2017, Target Net repurchased its equity interests held by a noncontrolling shareholder for a total consideration of RMB36.3 million, which increased the Group's ownership interest in Target Net to 74.8%. It was considered to be an equity transaction and the excess of the noncontrolling interest repurchased over the consideration was recorded in equity.

Acquisition of KKC

In April 2015 and September 2016, the Group acquired equity interest of KKC, an unlisted entity based in the PRC and involved in the used car business, in aggregate to approximately 54.8% on a fully diluted basis. Although holding the majority of equity interest, the Group did not obtain control over KKC due to the absence of the majority of voting power at the board of directors of KKC. In November 2016, the Group further acquired equity interest of KKC, increasing its equity interest to 49.7% of ordinary shares and approximately 74.8% on a fully diluted basis, and obtained control over KKC. The Group acquired KKC to expand its used car business.

The transaction in November 2016 was considered a step acquisition under ASC 805 "Business Combinations". A step acquisition gain of RMB28.1 million arising from the revaluation of previously held equity interest was recognized in the investment income/(loss) in the consolidated statements of comprehensive income/(loss) for the year ended December 31, 2016.

In May 2017, the Group acquired the remaining equity interest of KKC from the noncontrolling shareholders for a total consideration of RMB13.2 million, which increased the Group's ownership interest in KKC to 100%. It was considered to be an equity transaction and the difference between the consideration paid and the carrying amount of the non-controlling interest was recorded in equity.

5. Significant equity transactions and acquisitions (continued)

Acquisition of Beijing Xinchuang Interactive Advertising Company Limited (“Xinchuang”)

As of December 31, 2016, the Group held 30% equity interest in Xinchuang, an unlisted entity located in the PRC and engaged in internet digital marketing services. In January 2017, the Group acquired an additional 30% of the equity interest, increasing its ownership interest to 60%. After the transaction, Xinchuang was consolidated as a subsidiary of CIG, one of the Group’s subsidiaries. The Group acquired Xinchuang to expand its digital marketing solutions business.

This transaction was considered as a step acquisition under ASC 805 “Business Combinations”. A step acquisition gain of RMB36.3 million arising from revaluation of previously held equity interest was recognized in the investment income/(loss) in the consolidated statements of comprehensive income/(loss).

The total purchase consideration for acquiring Xinchuang was RMB105.6 million, including a liability of RMB63.6 million for the committed purchase of the remaining 40% equity interest in the following two years equally. In October 2017, a modification of the original share purchase agreement was entered into to terminate the commitment. It was considered an equity transaction and the difference between the liability as at modification date and the carrying amount of the non-controlling interest was recorded in equity.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

5. Significant equity transactions and acquisitions (continued)

Other acquisitions

For the year ended December 31, 2017, the Group acquired equity interests in other acquirees for total purchase consideration of RMB26.5 million.

There was no acquisition occurred for the year ended December 31, 2018

The fair values of the identifiable assets and liabilities as at the date of the acquisitions are summarized in the following table:

	Fair value recognized on acquisition for 2017
	RMB
Cash and cash equivalents	23,072
Property, plant and equipment, net	292
Intangible assets, net	60,684
Other assets	61,142
Current liabilities	(59,867)
Deferred tax liabilities	(15,171)
Net assets	70,152
Mandatorily redeemable noncontrolling interests	(63,569)
Goodwill arising on acquisitions	103,136
Total	109,719
Cash consideration	68,480
Fair value of previously held equity interests	41,239
Total consideration	109,719

The goodwill represented expected synergies arising on acquisitions. The knowledge and expertise of employees is not separable. Therefore, it does not meet the criteria for recognition as intangible asset under ASC 350 "Intangibles — Goodwill and Other". None of the goodwill recognized was expected to be deductible for income tax purposes. The intangible assets arising from the acquisition include customer relationship, software, and brand name. The estimated useful lives were described in Note 2 (p).

The noncontrolling interest has been recognized at fair value on the acquisition date.

Neither the results of operations since the acquisition date nor the pro forma results of operations of the acquirees were presented because the effects of these business combinations, individually or in the aggregate, were not significant to the Group's consolidated results of operations.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

6. Restricted cash

Components of restricted cash as of December 31, 2017 and 2018 are as follows:

	2017 RMB	2018 RMB
Time deposits pledged for bank borrowings	1,064,788	3,869,699
Cash deposits pledged for asset-backed securitization debt	211,368	371,042
Guarantee funds	62,479	537,288
Cash pledged for bank notes	145,227	12,370
Others	470	—
	1,484,332	4,790,399

7. Accounts receivable, net

Accounts receivable, net as of December 31, 2017 and 2018 are as follows:

	2017 RMB	2018 RMB
Accounts receivable	3,107,315	4,371,898
Less: allowance for doubtful accounts	(252,905)	(481,186)
	2,854,410	3,890,712

Accounts receivable are non-interest bearing and are generally on terms of 60 to 90 days. In some cases, these terms are extended up to 360 days for certain qualifying long-term customers who have met specific credit requirements.

As of December 31, 2018, accounts receivable at carrying value of RMB481.2 million (2017: RMB252.9 million) were impaired and fully provided for. The movements in the allowance for doubtful accounts are as follows:

	2016 RMB	2017 RMB	2018 RMB
Balance as of January 1	46,441	100,040	252,905
Charge for the year	53,599	152,865	228,281
Write off for the year	—	—	—
Balance as of December 31	100,040	252,905	481,186

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

8. Prepayments and other receivables

Components of prepayments and other receivables as of December 31, 2017 and 2018 are as follows:

	2017 RMB	2018 RMB
Advances to suppliers	80,647	54,197
Prepaid expenses	45,818	32,985
Deposits	88,587	235,662
Advances to used car dealers	62,843	11,774
Staff advances	57,355	13,038
VAT and other taxes receivables	638,267	596,494
Interest receivable	23,548	64,066
Loans to third parties	51,000	325,057
Other receivables from third parties	—	414,209
Loan recognized as a result of payment under the guarantee	—	29,060
Other receivables from disposal of assets	—	104,357
Others	55,618	158,400
	1,103,683	2,039,299

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

9. Investment in equity investees

The Group's investment in equity investees consisted of the follows:

	Investments without readily determinable fair value RMB	Equity method RMB	Total RMB
Balance as of January 1, 2016	1,099,119	183,639	1,282,758
Additions	268,535	34,685	303,220
Share of loss of equity investees	—	(25,640)	(25,640)
Less: disposals and transfers	(75,675)	(6,486)	(82,161)
Less: impairment losses	(86,618)	—	(86,618)
Foreign currency translation adjustments	55,415	498	55,913
Balance as of December 31, 2016	1,260,776	186,696	1,447,472
Additions	34,737	103,472	138,209
Share of loss of equity investees	—	(50,643)	(50,643)
Less: disposals and transfers	(14,623)	(126,512)	(141,135)
Less: impairment losses	(143,974)	(21,223)	(165,197)
Foreign currency translation adjustments	(44,836)	326	(44,510)
Balance as of December 31, 2017	1,092,080	92,116	1,184,196
Additions	60,336	713,527	773,863
Share of loss and other comprehensive income of equity investees	—	(57,923)	(57,923)
Less: disposals and transfers	(6,000)	(2,859)	(8,859)
Less: impairment losses	(17,040)	(17,589)	(34,629)
Transfer of the further share of loss of equity investee	—	20,465	20,465
Foreign currency translation adjustments	30,665	(607)	30,058
Balance as of December 31, 2018	1,160,041	747,130	1,907,171

Investments without readily determinable fair value

As of December 31, 2017 and 2018, the carrying value of the Group's investments without readily determinable fair value were RMB1.09 billion and RMB1.16 billion, respectively. Investments that do not have readily determinable fair values are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. For the years ended December 31, 2016, 2017 and 2018, the Group invested RMB268.5 million, RMB34.7 million, and RMB60.3 million in multiple private companies accounted for investments without readily determinable fair value respectively, which management believes will lead to future operating synergies with the Group's business in future years.

(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)

9. Investment in equity investees (continued)

Equity method

As of December 31, 2017 and 2018, the carrying value of the Group’s investments accounted for under the equity method were RMB92.1 million and RMB747.1 million, respectively. The Group applies the equity method to account for its equity investments, in common stock or in-substance common stock, over which it has significant influence but does not own a majority equity interest or otherwise control. For the year ended December 31, 2017, the Group disposed certain investments accounted for under the equity method and recorded a disposal gain of RMB43.6 million, which was recognized in the investment income/(loss) in the consolidated statements of comprehensive income/(loss).

As of December 31, 2018, the Group’s share of losses in one of its equity investees exceeded its interest in this equity investee, and the Group continued to recognize further losses amounting to RMB20.5 million against its balance due from the equity investee.

The condensed financial information of the Group’s equity investments accounted for under the equity method were summarized as a group below in accordance with Rule 4-08 of Regulation S-X:

	For the year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Revenue	652,864	80,095	733,295
Gross profit	138,640	4,981	222,209
(Loss)/Income from operations	(35,586)	(133,910)	14,779
Net (loss)/income	(47,855)	(133,207)	13,249
Net (loss)/income attributable to the equity-method investees	(36,886)	(129,223)	14,859

	As of December 31,	
	2017	2018
	RMB	RMB
Current assets	222,030	1,663,913
Non-current assets	133,003	1,754,208
Current liabilities	45,515	566,156
Non-current liabilities	—	9,565
Noncontrolling interests	8,603	(10,076)

10. Investment in convertible notes

On June 13, 2018, Yixin and Yusheng Holdings Limited ("Yusheng") entered into the convertible note purchase agreement, the business cooperation agreement and the framework agreement in relation to Yixin's investment in Yusheng by way of subscription for the convertible note.

Pursuant to the convertible note purchase agreement, Yusheng agreed to issue to Yixin interest free convertible notes with a term of 20 years in the principal amount of US$260.0 million for a consideration of (i) provision of the cooperation to Yusheng and/or its affiliates pursuant to the terms of the business cooperation agreement, and (ii) a cash consideration of US$21.0 million. The convertible notes are interest free and convertible into Series Pre-A preferred shares at the conversion price of US$20.00. The Group has elected the fair value option to account for the investment in convertible notes which amounted to RMB1.79 billion as at December 31, 2018.

Pursuant to the business cooperation agreement, Yixin shall provide the cooperation to Yusheng and/or its affiliates for a term of 20 years from the date of the business cooperation agreement. For the avoidance of doubt, actions in connection with respect to such cooperation include (i) Yixin shall provide certain traffic support in relation to the used automobile transaction business to Yusheng and/or its affiliates; (ii) Yixin shall provide certain automobile database related services to Yusheng and/or its affiliates on a non-exclusive basis; and (iii) Yixin shall not engage in, invest in, own, manage, operate or provide assistance to businesses that may compete with the used automobile transaction business during the term of the business cooperation agreement or until Yixin holds less than 10% equity interest in Yusheng on an as converted and fully diluted basis, whichever comes earlier. Please refer to Note 20 for further details.

Pursuant to the framework agreement, Yusheng agreed to purchase from Yixin, either directly or through its affiliates, certain fixed and intangible assets relating to the used automobile transaction business of Yusheng for an aggregate purchase price of US$21.0 million.

(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)

11. Property, plant and equipment, net

Property, plant and equipment, net as of December 31, 2017 and 2018 are as follows:

	2017 RMB	2018 RMB
Computers and servers	150,593	175,285
Automobiles for Group uses	35,805	42,101
Automobiles for operating leases	1,267,556	417,793
Furniture and fixtures	14,101	17,904
Leasehold improvements	98,594	71,490
Less: accumulated depreciation	(270,453)	(275,186)
Net book value	1,296,196	449,387

Depreciation expenses recognized for the years ended December 31, 2016, 2017 and 2018 were RMB55.9 million, RMB185.3 million and RMB255.8 million, respectively.

(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)

12. Intangible assets, net

Intangible assets, net as of December 31, 2017 and 2018 are as follows:

	As of December 31, 2017			
	Gross carrying amount RMB	Accumulated amortization RMB	Impairment amount RMB	Net carrying amount RMB
Purchased software	58,686	(25,038)	—	33,648
Digital Sales Assistant system	25,430	(15,470)	—	9,960
Trademark and lifetime membership	13,095	(265)	—	12,830
Domain names	25,399	(8,431)	—	16,968
Customer relationships	244,822	(75,349)	—	169,473
Brand name	20,830	(2,760)	—	18,070
Business cooperation	3,447,689	(1,761,589)	(254,873)	1,431,227
Others	39,113	(4,968)	—	34,145
	3,875,064	(1,893,870)	(254,873)	1,726,321

	As of December 31, 2018			
	Gross carrying amount RMB	Accumulated amortization RMB	Impairment amount RMB	Net carrying amount RMB
Purchased software	58,110	(27,956)	—	30,154
Digital Sales Assistant system	25,430	(18,013)	—	7,417
Trademark and lifetime membership	13,095	(721)	—	12,374
Domain names	25,399	(10,970)	—	14,429
Customer relationships	180,610	(82,244)	—	98,366
Brand name	3,630	(1,012)	—	2,618
Business cooperation	3,447,689	(2,391,469)	(254,873)	801,347
Others	39,113	(8,877)	—	30,236
	3,793,076	(2,541,262)	(254,873)	996,941

Amortization expenses for the years ended December 31, 2016, 2017 and 2018 amounted to RMB633.4 million, RMB688.6 million and RMB693.8 million, respectively.

The estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows:

	For the year ended December 31,				
	2019 RMB	2020 RMB	2021 RMB	2022 RMB	2023 RMB
Amortization expenses	666,137	201,528	21,118	17,053	15,509

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

13. Goodwill

	2016 RMB	2017 RMB	2018 RMB
Balance as of January 1	329,000	444,933	543,655
Acquisition of subsidiaries	115,848	103,136	—
Disposal	—	(4,326)	(11,585)
Foreign exchange difference	85	(88)	60
Balance as of December 31	444,933	543,655	532,130

The Group's goodwill impairment is tested at the reporting unit level, i.e. advertising and subscription business, transaction services business and digital marketing solutions business. As of December 31, 2018, the fair value of each reporting unit exceeded its carrying amount and no reporting units were at risk of failing the impairment test. As a result, no impairment charge was recognized.

	As of December 31, 2017			
	Advertising and subscription business RMB	Transaction services business RMB	Digital marketing solutions RMB	Total RMB
Goodwill	327,754	116,716	99,185	543,655

	As of December 31, 2018			
	Advertising and subscription business RMB	Transaction services business RMB	Digital marketing solutions RMB	Total RMB
Goodwill	327,754	105,131	99,245	532,130

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

14. Finance receivables, net

The Group provides automobile financial leasing services to individual customers and automobile dealers. Detailed information of finance receivables as of December 31, 2017 and 2018 are as follows:

	2017 RMB	2018 RMB
Finance receivables, gross		
- Within one year	16,363,872	22,661,850
- After one year but not more than five years	17,224,604	22,047,127
	33,588,476	44,708,977
Unearned finance income	(3,662,702)	(7,481,088)
	29,925,774	37,227,889
Allowance for credit losses	(134,169)	(350,816)
Finance receivables, net	29,791,605	36,877,073

Aging analysis of finance receivables are as follows:

	2017 RMB	2018 RMB
Not past due	29,069,556	35,788,625
Past due		
- Up to 3 months	610,501	1,027,691
- 3 to 6 months	177,070	219,112
- Over 6 months	68,647	192,461
	29,925,774	37,227,889
Allowance for credit losses	(134,169)	(350,816)
Finance receivables, net	29,791,605	36,877,073

Finance receivables due from related parties for the years ended December 31, 2017 and 2018 were RMB121.0 million and RMB105.9 million, which are presented as due from related parties.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

14. Finance receivables, net (continued)

Management assesses the allowance for credit losses of finance receivables collectively based on its historical experience and on various other assumptions that are believed to be reasonable, including estimated loss percentages of contracts that are not collectable, the historical migration pattern of past due balances, other information gathered through collection efforts and general economic conditions. Management reassesses the provision at each balance sheet date. As of December 31 2016, 2017 and 2018, the allowance for credit losses was RMB22.5 million, RMB134.2 million and RMB350.8 million, respectively. The movements in the allowance for credit losses are as follows:

	2016 RMB	2017 RMB	2018 RMB
Balance as of January 1	—	22,486	134,169
Charge for the year	29,052	196,320	528,824
Reversal of impairment for the year	—	—	(9,851)
Write off for the year	(6,566)	(84,637)	(312,177)
Recovery of finance receivables written off	—	—	9,851
Balance as of December 31	22,486	134,169	350,816

The Group securitizes finance receivables arising from its consumers through transfer of those assets to asset-backed securitization vehicles. The securitization vehicles usually issue senior tranche debt securities to third party investors, collateralized by the transferred assets, and subordinate tranche debt securities to the Group. As of December 31, 2017 and 2018, the collateralized finance receivables transferred to the securitization vehicles were RMB10.44 billion and RMB16.20 billion, respectively. Please refer to Note 2 (s) for details. The Group also secures certain borrowings from financial institutions with the cash proceeds of certain of the Group's finance receivables. As of December 31, 2017 and 2018, the finance receivables collateralized for borrowings from financial institutions were RMB12.20 billion and RMB8.84 billion, respectively.

15. Other non-current assets

	2017 RMB	2018 RMB
Prepayment for automobiles	261,768	149,215
Automobiles purchased for future leases	583,298	359,760
Long-term prepaid expenses	123,554	74,113
Deposits and others	416,424	581,939
	1,385,044	1,165,027

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

16. Borrowings

The Group's short term borrowings represent the borrowings which were payable within one year or on demand.

During 2018, the Group entered into revolving line of credit agreements with some commercial banks located in China. As of December 31, 2018, the total revolving line of credit was RMB512.3 million (2017: RMB1.98 billion) and available within one year from the respective agreement date. There are no commitment fees associated with the unused portion of the line of credit. The major revolving line of credit is guaranteed by the Company or other entities within the Group.

The weighted average interest rate on borrowings outstanding as of December 31, 2017 and 2018 was approximately 6.4% and 6.5%, respectively.

As of December 31, 2018, the borrowings will be due according to the following schedule:

	Within 1 year	Between 1 to 2 years	Between 2 to 3 years	Between 3 to 4 years	Between 4 to 5 years
	RMB	RMB	RMB	RMB	RMB
Principal amounts	12,297,621	4,311,731	442,393	—	—

17. Asset-backed securitization debt

As of December 31, 2017 and 2018, the asset-backed debt securities were RMB8.78 billion and RMB13.79 billion, respectively. The weighted average interest rate for the outstanding asset-backed securitization debt as of December 31, 2017 and 2018 were approximately 5.7% and 8.1%. The amount of interest charges recognized for the year ended December 31, 2017 and December 31, 2018 were RMB453.0 million and RMB967.4 million.

As of December 31, 2018, the asset-backed securitization debt will be due according to the following schedule:

	Within 1 year	Between 1 to 2 years	Between 2 to 3 years	Between 3 to 4 years	Between 4 to 5 years
	RMB	RMB	RMB	RMB	RMB
Principal amounts	10,090,744	3,674,781	107,771	—	—

18. Guarantee liabilities

The movement of guarantee liabilities is as follows:

	2018 RMB
Balance as of January 1	—
Fair value of guarantee liabilities upon the inception of new guarantees	119,672
Guarantee settled	(9,596)
Gains from guarantee liabilities	(2,462)
Balance as of December 31	107,614

The terms of the guarantee range from 1 year to 3 years, as of December 31, 2018.

19. Convertible debt

On August 2, 2016, the Company issued convertible notes (the "PAG Notes") for an aggregate principal amount of US$150.0 million to PA Grand Opportunity Limited (PAG). The PAG Notes are due on August 1, 2021 and bear interest of 2% annually which will be paid semi-annually beginning on February 2, 2017.

The PAG Notes can be converted, at the holder's option, into the Company's fully paid American Depositary Shares ("ADSs") or ordinary shares with an initial conversion price of approximately US$23.67 per ADS, representing an initial conversion rate of 4,224.7671 ADSs per US$100,000 principal amount of the PAG Notes.

The issuance costs of the PAG Notes were US$0.18 million and are being amortized to interest expense, using the effective interest method, until the maturity date of the PAG Notes.

The Company has accounted for the PAG Notes in accordance with ASC 470, as a single instrument classified as a long-term debt within the consolidated financial statements. The value of the PAG Notes is measured by the cash received. The Company recorded the interest expenses according to its annual interest rate. As of December 31, 2017 and 2018, the value of the PAG Notes in non-current liabilities is RMB707.9 million and RMB774.7 million, respectively.

The Company evaluated the embedded conversion features contained in the PAG Notes in accordance with ASC 815-10-15 to determine if the conversion option requires bifurcation. In accordance with ASC 815-10-15-83, the conversion option meets the definition of a derivative. However, bifurcation of conversion option from the PAG Notes is not required as the scope exception prescribed in ASC 815-10-15-74 is met as the conversion option is considered indexed to the entity's own stock and classified in stockholders' equity.

As the conversion option was not bifurcated, the Company then assessed if there was any beneficial conversion feature ("BCF") in accordance with ASC 470-20. The Company recognized a BCF of US$27.9 million (RMB185.7 million) through a credit to additional paid-in capital because the fair value per ordinary share of US$28.08 exceeded the conversion price of US$23.67 at the commitment date on August 2, 2016. The resulting discount of US$27.9 million to the PAG Notes is then accreted to the redemption value as interest expense using the effective interest method through the consolidated statement of comprehensive income/(loss) over the term of the PAG Notes.

The Company evaluated the embedded contingent redemption features contained in the PAG Notes in accordance with ASC 815-15-25-42 and ASC 815-15-25-26. The contingent redemption features were not required to be bifurcated because they are considered to be clearly and closely related to the debt host contract, as the PAG Notes were not issued at a substantial discount and are puttable at par.

On November 23, 2017, a third party investor who purchased US$24.0 million of the PAG Notes from PAG notified the Company of its intent of conversion. Upon conversion, the Company issued 1,013,941 ordinary shares to the investor and accordingly, the balance of the PAG Notes converted and related unamortized discounts and issuance costs, which amounted to RMB158.5 million, were recorded as the Company's shareholders' equity. The unamortized BCF associated with the PAG Notes converted, which amounted to RMB23.3 million, was expensed immediately in accordance with ASC 470-20 "Debt with conversion and other options".

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

19. Convertible debt (continued)

For the years ended December 31, 2017 and December 31, 2018, the effective interest rate for PAG Notes was 6.5% and 6.5%, and the amount of interest charges recognized was RMB53.8 million and RMB46.8 million.

The contractual repayment amount of the convertible debt is nil for each of the years ending December 31, 2019 and 2020, and US$126.0 million for the year ended December 31, 2021. The Group estimated it may repurchase the outstanding convertible debt in whole in cash before maturity.

20. Deferred revenue

	2017 RMB	2018 RMB
Deferred revenue	140,000	1,609,787

Pursuant to the business cooperation agreement, Yixin shall provide the cooperation to Yusheng and/or its affiliates for a term of 20 years from the date of the business cooperation agreement. Deferred revenue related to Yusheng amounting to US$227.8 million was initially recognized at fair value of the services in the business cooperation agreement. As of December 31, 2018, the carrying amount of the related deferred revenue amounted to RMB1.51 billion.

21. Other payables and accruals

Components of other payables and accruals as of December 31, 2017 and 2018 are as follows:

	2017 RMB	2018 RMB
Accrued payroll	251,651	262,590
Accrued expenses	150,835	78,610
Advances from customers	1,182,840	1,035,090
Other payables	488,428	657,832
Other tax payables	296,336	389,483
Interest payable	96,502	236,552
	2,466,592	2,660,157

The above balances are non-interest-bearing and are normally settled under the terms of 120 to 150 days. Included in advances from customers, are amounts received from dealer subscriptions and listing customers prior to revenue recognition amounting to RMB898.7 million and RMB845.0 million, and from leasing customers prior to revenue recognition amounting to RMB240.6 million and RMB168.6 million as of December 31, 2017 and 2018, respectively.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

22. Redeemable noncontrolling interests

	2017 RMB	2018 RMB
Balance as of January 1	3,939,646	301,953
Issuance of shares of the Group's subsidiaries	1,353,293	30,000
Conversion of redeemable noncontrolling interests to ordinary shares	(5,323,103)	—
Accretion to redeemable noncontrolling interests	332,117	28,057
	301,953	360,010

In 2015, 2016 and 2017, Yixin issued redeemable convertible preference shares to JD Financial Investment Limited (one subsidiary of JD.com, Inc., collectively as "JD" together with other subsidiaries) and other third-party investors. The redeemable convertible preference shares contain conversion features and redemption features. The Group records accretion of redemption value in accordance with ASC 480 "Distinguishing Liabilities from Equity". The Group elects to use the effective interest method for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the noncontrolling interests.

Upon completion of Yixin's IPO on November 16, 2017, all the redeemable convertible preference shares were automatically converted into ordinary shares of Yixin. As of December 31, 2018, the Group held 44.8% (2017: 45.2%) of the then outstanding ordinary shares of Yixin. However, through the voting proxy agreement that the Group entered into with JD and another shareholder, the Group is able to control Yixin by gaining the simple majority of the voting rights in Yixin's shareholders' meeting immediately after the IPO. Accordingly, the Group continues to consolidate the operations and the financial results of Yixin and provide for noncontrolling interests reflecting ordinary shares in Yixin held by shareholders other than the Group in the consolidated financial statements. The Group recognized a one-time credit to additional paid-in capital of RMB2.37 billion in shareholders' equity in the consolidated balance sheets to reflect the increase in the value of the Group's equity in Yixin that resulted from the completion of Yixin's IPO and conversion of redeemable convertible preference shares.

In 2017, one subsidiary of the Group issued ordinary shares with redemption features to certain third-party investors. The Group classifies redeemable noncontrolling interests as mezzanine equity and records accretion of redemption value in accordance with ASC 480 "Distinguishing Liabilities from Equity". The Group elects to use the effective interest method for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the noncontrolling interests.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

23. Other gains, net

	2016 RMB	2017 RMB	2018 RMB
Foreign currency exchange gains/(losses)	4,005	(1,721)	(22,103)
Gains on disposal of property, plant and equipment and intangible assets, net	22,993	16,430	47,309
Government grants	26,788	28,946	60,449
Other income from business cooperation arrangements with Yusheng	—	—	48,102
Gains from guarantee liabilities	—	—	2,462
VAT refund	—	—	71,505
Others	17,195	(12,079)	(26,610)
	70,981	31,576	181,114

The Group adopted ASC 606, from January 1, 2018, using the modified retrospective method. In accordance with ASC 606, VAT was presented on a net basis instead of on a gross basis under ASC 605, and VAT refund was recorded as other gains, net instead of revenue in the consolidated statements of comprehensive income/(loss) for the year ended December 31, 2018.

24. Income tax expense

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Under the Hong Kong tax laws, subsidiaries in Hong Kong are subject to the Hong Kong profits tax rate at 16.5% and they may be exempted from income tax on their foreign-derived income and there is no withholding tax in Hong Kong on remittance of dividends.

PRC

Under the PRC Enterprise Income Tax Law ("EIT Law"), EIT rate is 25% for enterprises incorporated in the PRC. Preferential EIT rates are available for enterprises qualified as High and New Technology Enterprises ("HNTEs") and Software Enterprises ("SEs"). Entities qualified as HNTEs enjoy a reduced tax rate of 15% within three years after obtaining the HNTE certificate. An entity could re-apply for the HNTE certificate when the prior certificate expires. Historically, all of HNTEs of the Group successfully re-applied for the certificates when the prior ones expired. Entities qualified as SEs enjoy a two-year exemption for EIT from the first profitable year followed by a three-year half reduction in tax rate. In addition, in accordance with relevant PRC tax regulations, qualified entities established in specific geographical areas are exempt from EIT for five years, commencing from the first year of operation.

In general, the PRC tax authorities have up to five years to conduct examinations of the tax filings of the Company's PRC subsidiaries. Accordingly, the PRC subsidiaries' tax years of 2014 through 2018 remain open to examination by the respective tax authorities. The Company may also be subject to the examinations of the tax filings in other jurisdictions, which are not material to the consolidated financial statements.

Further, pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared by PRC enterprises to their foreign non-resident enterprise investors. A lower withholding tax rate will be applied if tax treaty or arrangement benefits are available. According to the tax arrangement between the PRC and Hong Kong, withholding tax rate of 5% is applicable if direct foreign non-resident enterprise investors own directly at least 25% equity interest in the PRC enterprises and meet the relevant requirements.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

24. Income tax expense (continued)

Composition of income tax expense:

	2016 RMB	2017 RMB	2018 RMB
Current income tax	140,706	249,995	326,418
Deferred income tax	6,863	(46,171)	(150,522)
	147,569	203,824	175,896

Composition of deferred tax assets and liabilities:

	2017 RMB	2018 RMB
Deferred tax assets		
Amortization of intangible assets	698	757
Tax losses carried forward	26,828	19,030
Allowance for credit losses	41,119	170,527
Others	2,374	507
Less: valuation allowance	(18,511)	(12,258)
	52,508	178,563
Deferred tax liabilities		
Intangible assets arising from business combinations	(52,237)	(27,770)
	(52,237)	(27,770)
Net deferred tax assets	271	150,793

Movement of valuation allowance:

	2016 RMB	2017 RMB	2018 RMB
Balance as of January 1	17,471	18,170	18,511
Additions	1,014	2,319	24,523
Reversals	(315)	(1,978)	(30,776)
Balance as of December 31	18,170	18,511	12,258

As of December 31, 2018, the Group had net operating losses carried forward of approximately RMB83.0 million which arose from the subsidiaries, VIEs and subsidiaries of VIEs established in the PRC. The losses carried forward will expire during the period from 2019 to 2023.

The Group did not provide for deferred taxes on the undistributed earnings of its subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC as of December 31, 2017 and 2018 on the basis of its intent to reinvest the earnings. As of December 31, 2017 and 2018, the total amount of undistributed earnings from the subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC was RMB2.79 billion and RMB2.84 billion, respectively. As of December 31, 2017 and 2018, determination of the amount of unrecognized deferred tax liability related to the earnings that are indefinitely reinvested is not practical.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

24. Income tax expense (continued)

Reconciliation of the differences between the statutory EIT rate applicable to profits of the consolidated entities and the income tax expenses of the Group:

	2016 RMB	2017 RMB	2018 RMB
Loss before tax	(190,384)	(1,223,164)	(503,420)
Income tax computed at statutory EIT rate (25%)	(47,596)	(305,791)	(125,855)
Effect of preferential tax rates for certain entities comprising the Group	(20,409)	(112,684)	(137,124)
Effect of differing tax rates in different jurisdictions	184,235	422,677	260,441
Non-deductible expenses and non-taxable income, net	34,012	188,069	218,830
Tax savings from additional deductions on certain research and development expenses available for subsidiaries incorporated in the PRC	(3,253)	(3,822)	(4,623)
Change in valuation allowances	699	1,933	(23,572)
Others	(119)	13,442	(12,201)
Income tax expense	147,569	203,824	175,896
Effective income tax rate	(77.5)%	(16.7)%	(34.9)%

25. Share-based compensation

For the years ended December 31, 2016, 2017 and 2018, total share-based compensation expenses recognized were RMB77.0 million, RMB1.19 billion and RMB896.4 million, respectively.

Share incentive plan

On December 31, 2006, the Company implemented an Employee Stock Incentive Plan ("2006 Plan") under which the Company has reserved 1,028,512.5 ordinary shares for employees. The Board of Directors of the Company may invite employees of the Group to subscribe for options over the Company's ordinary shares.

On February 8, 2010, the Company implemented an Employee Stock Incentive Plan ("2010 Plan") under which the Company has reserved 3,089,887.5 ordinary shares for employees. The 2010 Plan stipulates that if options are forfeited, the forfeited options can be added back to the option pool to be granted to other employees. The board of the Company may invite employees of the Company to subscribe for options over the Company's ordinary shares.

On August 7, 2012, the Company implemented an Employee Stock Incentive Plan ("2012 Plan") under which the Company has reserved 1,908,180.0 ordinary shares to motivate, attract and retain employees, and directors. The 2012 Plan permits the awards of options and RSUs.

On November 17, 2016, the Company implemented an Employee Stock Incentive Plan ("2016 Plan") under which the Company has reserved 2,500,000.0 ordinary shares to attract and retain the best available personnel and provide additional incentives to employees, officers, directors and advisors of the Company. The 2016 Plan permits the awards of options and RSUs. In March 2018, the Company amended the 2016 Plan and increased the maximum number of ordinary shares to 6,200,000.0 shares.

Share options

The Company granted share options on December 31, 2006, February 8, 2010, December 28, 2010 and August 7, 2012, respectively. Options granted typically expire in ten years from the respective grant dates, except for options granted on December 31, 2006 whose expiration date was extended to December 31, 2026. The options have graded vesting terms, and vest in equal tranches from the grant date over three or four years, on the condition that employees remain in service without any performance requirements.

25. Share-based compensation (continued)

The activities of share options for the year ended December 31, 2018 is summarized as below:

	Number of shares	Weighted average exercise prices US$/Share	Aggregate intrinsic value US$ in thousands	Weighted average remaining contractual life
Outstanding as of January 1, 2018	413,706.0	6.54	10,450	3.82 years
Granted during the year	—	—		
Exercised during the year	(71,876.0)	4.07		
Forfeited during the year	—	—		
Outstanding as of December 31, 2018	341,830.0	7.05	6,057	2.70 years
Exercisable as of December 31, 2018	341,830.0	7.05	6,057	2.70 years

The aggregate intrinsic value in the table above represents the difference between the Company's closing stock price on the last trading day of the year and the exercise price.

Total intrinsic value of options exercised for the years ended December 31, 2016, 2017 and 2018 was RMB126.6 million, RMB93.2 million and RMB8.8 million, respectively. The total fair value of options vested during the years ended December 31, 2016, 2017 and 2018 was RMB3.4 million, nil and nil, respectively.

For the years ended December 31, 2016, 2017 and 2018, share-based compensation expenses recognized associated with the share options were RMB0.5 million, nil and nil, respectively. As of December 31, 2018, there were no unrecognized share-based compensation expenses related to share options.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

25. Share-based compensation (continued)

Restricted shares units

Starting from 2013, the Company granted RSUs under share incentive plans. The RSUs granted would vest (i) on the anniversary of the grant date, or in equal tranches from the grant date over three to five years, on the condition that employees remain in service without any performance requirements; or (ii) on specific dates, or in equal tranches from the grant date over four years, if the grantees' key performance indicators were achieved on each vest date.

Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

The activities of RSUs for the year ended December 31, 2018 is summarized as below:

	Number of RSUs	Weighted-average fair value per RSU granted (US$)
Outstanding as of January 1, 2018	2,811,752.0	23.42
Granted during the year	2,750,000.0	26.20
Vested and sold during the year	(611,520.0)	23.66
Forfeited during the year	(412,900.0)	22.70
Outstanding as of December 31, 2018	4,537,332.0	25.14
Vested as of December 31, 2018	903,466.0	22.65

The weighted-average grant-date fair value during the years ended December 31, 2016, 2017 and 2018 was US$23.25, US$22.44 and US$26.20, respectively. The total fair value of the RSUs vested during the years ended December 31, 2016, 2017 and 2018 was RMB99.4 million, RMB209.5 million, RMB95.2 million, respectively.

For the years ended December 31, 2016, 2017 and 2018, share-based compensation recognized associated with the RSUs was RMB75.8 million, RMB268.5 million and RMB219.4 million, respectively. As of December 31, 2018, there was RMB359.0 million of unrecognized share-based compensation expense related to RSUs. The compensation expenses are expected to be recognized over a weighted-average period of 3.78 years.

25 . Share-based compensation (continued)

Subsidiaries-Yixin

In November 2017, Yixin implemented share recapitalization to effect a 7-for-1 share split for all ordinary shares then issued and outstanding. All information related to Yixin’s ordinary shares and stock options have been retroactively adjusted to give effect to the share split.

On May 26, 2017, Yixin approved the establishment of the Pre-IPO Share Option Scheme which was amended on September 1, 2017, the purpose of which is to provide an incentive for employees and persons contributing to Yixin. The Pre-IPO Share Option Scheme shall be valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under 2017 Share Incentive Plan shall be 418,464,263 shares.

On May 26, 2017, Yixin approved the establishment of the First Share Award Scheme which was amended on September 1, 2017, the purpose of which is to provide an incentive for employees and persons contributing to Yixin. The First Share Award Scheme shall be valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under First Share Award Scheme shall be 70,830,417 shares.

On September 1, 2017, Yixin approved the establishment of the Second Share Award Scheme with the purpose of which is to provide an incentive for employees and persons contributing to Yixin. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under Second Share Award Scheme shall be 5% of the total number of issued shares without Shareholders’ approval, subject to an annual limit of 3% of the total number of issued shares at the relevant time.

- *Share options*

The exercise price of the granted options to employees shall be US$0.0014. The options have graded vesting terms determined in the grant letter, on the condition that employees remain in service without any performance requirements. The vesting dates should be determined by the Company and grantees for each option agreement. The granted options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

25. Share-based compensation (continued)

The activities of Yixin's share options for the year ended December 31, 2018 is summarized as below:

	Number of shares	Weighted average exercise prices US$/Share	Aggregate intrinsic value US$ in thousands	Weighted average remaining contractual life
Outstanding as of January 1, 2018	392,429,709	0.0014	314,387	9.55
Granted during the year	—	0.0014		
Exercised during the year	(49,907,422)	0.0014		
Forfeited during the year	(9,293,573)	0.0014		
Outstanding as of December 31, 2018	333,228,714	0.0014	73,982	8.56
Exercisable as of December 31, 2018	210,367,397	0.0014	46,705	8.53

The aggregate intrinsic value in the table above represents the difference between Yixin's closing stock price on the last trading day of the year and the exercise price.

Total intrinsic value of options exercised for the years ended December 31, 2018 was RMB160.5 million. The total fair value of options vested during the years ended December 31, 2018 was RMB254.6 million.

For the years ended December 31, 2017 and 2018, share-based compensation expenses recognized were RMB891.7 million and RMB307.8 million, respectively. As of December 31, 2018, there was RMB222.5 million of unrecognized share-based compensation expense related to share options granted by Yixin. The compensation expenses are expected to be recognized over a weighted-average period of 2.44 years.

The estimate of the fair values of the options were measured based on the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used on the date of grant and weighted-average fair value per option granted:

	July 3, 2017		October 1, 2017	
Fair value per share	US$	0.53	US$	0.70
Exercise price	US$	0.0014	US$	0.0014
Risk-free interest rate		2.50%		2.46%
Dividend yield		0.00%		0.00%
Weighted-average fair value per option granted	US$	0.53	US$	0.70
Expected volatility		51%		56%
Expected terms		10 years		10 years

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

25. Share-based compensation (continued)

- Restricted shares units

Starting from 2018, Yixin granted RSUs to Yixin's employees under the share award scheme. The RSUs granted would vest on specific dates, or in equal tranches from the grant date over two to four years, on condition that employees remain in service without any performance requirements. Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

The activities of RSUs for the year ended December 31, 2018 is summarized as below:

	Number of RSUs	Weighted-average fair value per RSU granted (US$)
Outstanding as of January 1, 2018	—	—
Granted during the year	106,897,010	0.31
Vested and sold during the year	(2,621,252)	0.35
Forfeited during the year	(4,538,632)	0.40
Outstanding as of December 31, 2018	99,737,126	0.30
Vested as of December 31, 2018	2,621,252	0.35

The weighted-average grant-date fair value during the year ended December 31, 2018 was US$0.31. The total fair value of the RSUs vested during the year ended December 31, 2018 was RMB6.1 million.

For the year ended December 31, 2018, share-based compensation recognized associated with the RSUs granted by Yixin was RMB39.6 million. As of December 31, 2018, there was RMB132.3 million of unrecognized share-based compensation expense related to RSUs. The compensation expenses are expected to be recognized over a weighted-average period of 3.21 years.

Subsidiaries-Others

Other subsidiary of the Company also has equity incentive plans granting options. For the years ended December 31 2017 and 2018, total share-based compensation expenses recognized were RMB23.3 million and RMB329.6 million, and there were no unrecognized compensation expenses related to options granted by other subsidiary.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

26. Earnings per share

The following table sets forth the computation of basic and diluted net loss per share for the following periods:

	2016	2017	2018
Numerator:			
Net loss attributable to Bitauto Holdings Limited	(541,345)	(1,611,114)	(608,352)
(Loss)/Income allocation to participating securities of subsidiaries	—	(2,936)	28,336
Numerator for basic net loss per share	(541,345)	(1,614,050)	(580,016)
Dilutive effect of redeemable convertible preference shares and share options of subsidiaries	—	(11,036)	—
Numerator for diluted net loss per share	(541,345)	(1,625,086)	(580,016)
Denominator:			
Weighted average number of shares - basic	65,160,205	70,154,910	71,305,353
Dilutive effect of potentially issuable ordinary shares	—	—	—
Weighted average number of shares - diluted	65,160,205	70,154,910	71,305,353
Net loss per ordinary share - basic	(8.31)	(23.01)	(8.13)
Net loss per ordinary share - diluted	(8.31)	(23.16)	(8.13)

The redeemable convertible preference shares were not included in the calculation of diluted net loss per share because they are anti-dilutive for the years ended December 31 2016 and December 31 2018.

The weighted average number of shares, that could potentially dilute basic net loss per share in the future including incremental shares of ordinary shares issuable upon the exercise of share options and RSUs, and conversion of convertible debt, but were not included in the computation of diluted net loss per share because they were anti-dilutive for the years presented, are 4,030,651, 8,126,552 and 6,412,017 for the years ended December 31, 2016, 2017 and 2018.

27. Fair value measurement

Assets and liabilities measured at fair value on a recurring basis

As of December 31, 2018, information about inputs into the fair value measurement of the Group's assets and liabilities that are measured and recorded at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

	As of December 31, 2018		
	Level 1	Level 2	Level 3
	RMB	RMB	RMB
Investment in convertible notes	—	—	1,789,470
Guarantee liabilities	—	—	(107,614)

These instruments are categorized in the Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. The Group did not transfer any assets or liabilities in or out of level 3 during the year ended December 31, 2018.

Guarantee liabilities are presented as a level 3 measurement, with the fair value estimated based on the third-party appraisal's report using discount cash flow method. Key inputs and parameters includes default probability and loss rate of principal and interest which based on management best estimation by making reference to historical record for similar loan products, margin on expected loss which is determined by making reference to the average gross profit margin of comparable companies, and discount rate which is mainly determined by making reference to the average cost of debt for automobile financing lease services.

Investment in convertible notes is presented as a level 3 measurement, with the fair value estimated based on the third-party appraisal's report using the binomial option pricing model. Key inputs and parameters includes volatility which is an expected rate based on the historical stock price of comparable companies, risk free rate which is based on the yield of US strip bond with a maturity life equal to the remaining maturity life of the convertible notes and discount rate which is based on yield of comparable bonds with similar credit ratings applicable for the Group.

27. Fair value measurement (continued)

Assets and liabilities measured at fair value on a nonrecurring basis

The Group holds investments in equity investees of privately-held companies that are accounted for the investments under equity method or the investments without readily determinable fair value. The Group performs impairment assessments of these investments whenever events or changes in circumstances indicate that the carrying value of the investment may not be fully recoverable. The Group determined certain investments in equity investees were fully impaired after evaluated the business prospects, operational data and financial results of the investees. Impairment charges were recorded in connection with the investment in equity investees of RMB86.6 million, RMB165.2 million and RMB34.6 million for the years ended December 31, 2016, 2017 and 2018, respectively. The fair value of the investments were measured using significant unobservable inputs as Level 3.

Other financial instruments

The following are other financial instruments not measured at fair value in the consolidated balance sheets, but for which the fair value is estimated for disclosure purposes.

Cash and cash equivalents, restricted cash, accounts receivable, bills receivable, finance receivables, other receivables and due from related parties are financial assets with carrying values that approximate fair value due to their short-term nature. Accounts payable, bills payable, other payables and due to related parties are financial liabilities with carrying values that approximate fair value due to their short-term nature.

For borrowings, interest rates under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market. The Group classifies the valuation techniques that use these inputs as Level 2 fair value measurement. The carrying value of borrowings approximate fair value.

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

28. Related party transactions

The table below sets forth the related parties and their relationships with the Group as of December 31, 2018:

Name of related parties	Relationship with the Group
Chetuan E-Commerce Ltd. and its subsidiaries ("Chetuan")	An investee of the Group
Shanghai Eclicks Network Co. Ltd. ("Eclicks")	An investee of the Group
TTP CAR INC. and its subsidiaries ("TTP")	An investee of the Group
Beijing Anxinbao Insurance Brokerage Co., Ltd. ("Anxinbao")	An investee of the Group
Jingzhengu Holdings Ltd. and its subsidiaries ("Jingzhengu")	An investee of the Group
Wuhan Kuanter Investment Co., Ltd ("Wuhan Kuantu")	An investee of the Group
NIO.INC and its subsidiaries ("NIO")	Affiliate
JD	Ordinary shareholder of the Group

As of December 31, 2016, Xinchuang was a related party as an investee of the Group. In January 2017, the Group acquired additional equity interests of Xinchuang to obtain control of it and Xinchuang remained a subsidiary of the Group as of December 31, 2017 and 2018.

The Group entered into the following transactions for the years ended December 31, 2016, 2017 and 2018 with related parties:

	2016 RMB	2017 RMB	2018 RMB
Services provided to related parties:			
Automobile transaction services provided to Chetuan	79,632	9,830	—
Advertising services provided to Xinchuang	79,922	—	—
Advertising services provided to TTP	32,059	15,260	—
Advertising services provided to NIO	—	27,360	30,629
Other transaction services provided to Anxinbao	—	14,183	6,000
Others	2,966	381	160
	194,579	67,014	36,789
Services and automobiles purchased from related parties:			
Automobile transaction services purchased from Chetuan	86,632	—	—
Advertising services purchased from Xinchuang	16,024	—	—
Advertising services purchased from Eclicks	85,838	98,530	36,434
Marketing and promotion services purchased from JD	22,102	40,411	57,063
Used car valuation services purchased from Jingzhengu	3,366	14,400	20,656
Automobiles purchased from NIO	—	—	5,184
Others	16,597	31,155	17,708
	230,559	184,496	137,045

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

28. Related party transactions (continued)

The Group had the following balances as of December 31, 2017 and 2018 with related parties:

	2017 RMB	2018 RMB
Due from Chetuan	153,214	105,919
Due from Anxinbao	9,593	231
Due from Wuhan Kuantu	5,281	—
Due from NIO	8,816	21,109
Due from Jingzhengu	13,096	54,106
Others	15,031	130
	205,031	181,495
Due to Chetuan	—	57,469
Due to Eclicks	81,440	38,840
Due to Jingzhengu	3,170	2,182
Others	13,631	8,072
	98,241	106,563

Loans from JD:

	2017 RMB	2018 RMB
Balance as of January 1	—	—
Loans received during year	2,036,020	—
Loans repayment made	(2,036,020)	—
Interest charged	22,244	—
Interest paid	(22,244)	—
Balance as of December 31	—	—

The transactions with other related parties and balance with other related parties are individually and aggregately insignificant.

(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)

29. Commitments and contingencies

Operating lease commitments

The Group has leased office premises under non-cancellable operating lease agreements. These leases have varying terms and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 RMB	2018 RMB
Within one year	119,484	119,501
After one year but not more than five years	172,452	152,273
Later than five years	1,823	5,961
	293,759	277,735

For the years ended December 31, 2016, 2017 and 2018, the Group incurred rental expenses under operating leases of RMB123.1 million, RMB136.6 million and RMB149.1 million, respectively.

Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2017 RMB	2018 RMB
Purchase of automobiles	503,903	7,007
	503,903	7,007

Legal proceedings

From time to time, the Group is subject to legal proceedings, investigations and claims incidental to the conduct of our business. The Group is currently not involved in any legal or administrative proceedings that may have a material adverse impact on the Group’s business, balance sheets, results of operations or cash flows. From time to time, the Group may be subject to legal proceedings, investigations and claims incidental to our business conduct.

30. Operating segment information

As disclosed in Note 2(e), the Group managed its business in three reportable segments, namely advertising and subscription business, transaction services business and digital marketing solutions business.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

As the Group’s long-lived assets are substantially all located in the PRC and substantially all the Group’s revenues are derived from external customers within the PRC, no geographical segments are presented.

For the purpose of preparing segment information, all the intersegment transactions have been eliminated and only revenue from external customers are presented as segment revenue. The Group does not allocate non-operating income and expenses to each reportable segment. Accordingly, the measure of profit and loss for each reportable segment as reported to the chief operating decision maker is operating profit. A reconciliation of operating profit to profit before tax is presented in the consolidated statements of comprehensive income/(loss).

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

30. Operating segment information (continued)

	Advertising and subscription business	Transaction services business	Digital marketing solutions business	Total
Year ended, December 31, 2016				
Revenue	3,432,986	1,551,676	788,286	5,772,948
Gross profit	2,542,534	668,238	484,197	3,694,969
Income/(Loss) from operations	592,611	(848,267)	146,428	(109,228)
Year ended, December 31, 2017				
Revenue	3,922,158	3,872,244	956,857	8,751,259
Gross profit	3,076,332	1,902,614	537,633	5,516,579
Income/(Loss) from operations	444,564	(1,525,073)	3,916	(1,076,593)
Year ended, December 31, 2018				
Revenue	4,074,218	5,370,871	1,134,520	10,579,609
Gross profit	3,414,173	2,318,790	602,248	6,335,211
Income/(Loss) from operations	666,257	(838,477)	(293,286)	(465,506)

The income/(loss) from operations for the year ended December 31, 2016 for advertising and subscription business, transaction services business, and digital marketing solutions included depreciation and amortization expenses of RMB52.3 million, RMB619.3 million and RMB8.3 million, respectively.

The income/(loss) from operations for the year ended December 31, 2017 for advertising and subscription business, transaction services business, and digital marketing solutions included depreciation and amortization expenses of RMB58.5 million, RMB788.7 million and RMB26.7 million, respectively.

The income/(loss) from operations for the year ended December 31, 2018 for advertising and subscription business, transaction services business, and digital marketing solutions included depreciation and amortization expenses of RMB54.7 million, RMB862.1 million and RMB32.7 million, respectively.

For the years ended December 31, 2016 ,2017 and 2018, the leasing revenue, which was interest revenue earned from automobile financing lease services, were RMB863.7 million, RMB3.03 billion and RMB4.09 billion, and funding costs, which was interest expenses incurred for automobile financing lease and operating lease services, were RMB187.2 million, RMB1.14 billion and RMB2.05 billion, respectively.

31. Restricted net assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC laws and regulations permit payments of dividends by the Company's subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Company's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from their net income based on PRC accounting standards to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the net income based on PRC accounting standards until such appropriations for the fund reach 50% of the registered capital of the entity. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the discretion of the respective entity.

In addition, in accordance with the PRC Company Laws, the Company's VIEs and subsidiaries of VIEs, registered as Chinese domestic companies, must make appropriations from their net income based on PRC accounting standards to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the net income based on PRC accounting standards until such appropriations for the fund reached 50% of the registered capital of the entity. Appropriation to the discretionary surplus fund is made at the discretion of the respective entity. In addition, registered capital is also restricted from withdrawal in the PRC.

As of December 31, 2018, the Company's subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC had registered capital and reserve funds appropriated of RMB24.12 billion.

As a result of these PRC laws and regulations that require annual appropriations of 10% of net income to be set aside, prior to payments of dividends as general reserve fund or statutory reserve fund, the Company's subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC are restricted in their ability to transfer a portion of their net assets to the Company in the form of dividends, loans and advances. Even though the Company currently does not require any such dividends, loans or advances from the PRC entities for working capital and other funding purposes, the Company may in the future require additional cash resources from them due to changes in business conditions, funding of future acquisitions and development, or merely to declare and pay dividends or distributions to its shareholders.

32. Parent company only condensed financial information

The Company performed a test on the restricted net assets of consolidated subsidiaries, VIEs and subsidiaries of VIEs in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), “General Notes to Financial Statements” and concluded that it was applicable for the Company to disclose the financial information for the parent company only. The subsidiaries did not pay any dividend to the Company for the years presented. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures contain supplemental information relating to the operations of the Company, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company.

The Company did not have significant capital and other commitments, long-term obligations, or guarantees as of December 31, 2018.

(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)

32. Parent company only condensed financial information (continued)

Condensed balance sheets

	As of December 31,	
	2017	2018
	RMB	RMB
Assets		
Current assets		
Cash and cash equivalents	66,662	44,056
Prepayments and other receivables	51,760	44,969
Total current assets	118,422	89,025
Non-current assets		
Investments in subsidiaries, VIEs and subsidiaries of VIEs	6,429,473	6,860,452
Investment in equity investees	43,945	25,914
Intangible assets, net	1,431,226	801,347
Due from subsidiaries, VIEs and subsidiaries of VIEs	6,222,037	6,165,296
Total non-current assets	14,126,681	13,853,009
Total assets	14,245,103	13,942,034
Liabilities		
Current liabilities		
Accruals and other payables	73,807	57,874
Total current liabilities	73,807	57,874
Non-current liabilities		
Due to subsidiaries, VIEs and subsidiaries of VIEs	2,134,755	1,979,140
Convertible debt	707,854	774,703
Total non-current liabilities	2,842,609	2,753,843
Total liabilities	2,916,416	2,811,717
Shareholders’ Equity		
Ordinary shares (US$0.00004 par value; 1,250,000,000 shares authorized as of December 31, 2017 and 2018, respectively; 72,739,966 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	19	19
Additional paid-in capital	12,220,493	12,782,826
Treasury shares	(20,411)	(333,985)
Statutory reserve	153,538	204,583
Accumulated other comprehensive income	468,257	601,423
Accumulated deficit	(1,493,209)	(2,124,549)
Total shareholders’ equity	11,328,687	11,130,317
Total liabilities and shareholders’ equity	14,245,103	13,942,034

(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)

32. Parent company only condensed financial information (continued)

Condensed statements of comprehensive loss

	For the year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Selling and administrative expenses	(689,656)	(910,515)	(854,104)
Other gains	5	38,948	400
Loss from operations	(689,651)	(871,567)	(853,704)
Interest income	1,209	1,592	10
Interest expense	(21,407)	(77,158)	(46,767)
Share of results of equity investees	(24,354)	(52,055)	(40,502)
Equity in profit/(loss) of subsidiaries, VIEs and subsidiaries of VIEs	192,858	(611,926)	332,611
Loss before tax	(541,345)	(1,611,114)	(608,352)
Net loss	(541,345)	(1,611,114)	(608,352)
Other comprehensive income/(loss)			
Foreign currency exchange gains/(losses), net of tax of nil	459,227	(274,045)	133,166
Total comprehensive loss, net of tax	(82,118)	(1,885,159)	(475,186)

(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

32. Parent company only condensed financial information (continued)

Condensed statements of cash flows

	For the year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Net cash (used in)/provided by operating activities	(9,711)	104,295	110,517
Net cash (used in)/provided by investing activities	(3,195,265)	(238,475)	92,800
Net cash provided by/(used in) financing activities	2,198,272	354,821	(296,719)
Effect of exchange rate changes on cash and cash equivalents	148,031	(307,999)	70,796
Decrease in cash and cash equivalents	(858,673)	(87,358)	(22,606)
Cash and cash equivalents at beginning of the year	1,012,693	154,020	66,662
Cash and cash equivalents at end of the year	154,020	66,662	44,056

Basis of presentation

The Company's accounting policies are the same as the Group's accounting policies with the exception of the accounting for the investments in subsidiaries, VIEs and subsidiaries of VIEs.

For the Company only condensed financial information, the Company records its investments in subsidiaries, VIEs and subsidiaries of VIEs under the equity method of accounting as prescribed in ASC 323 "Investments-Equity Method and Joint Ventures". Such investments are presented on the condensed balance sheets as "investment in subsidiaries, VIEs and subsidiaries of VIEs" and shares in the subsidiaries, VIEs and subsidiaries of VIEs' profit are presented as "equity in profit of subsidiaries, VIEs and subsidiaries of VIEs" on the condensed statements of comprehensive income/(loss). The cash flows used in the investing activities are primarily associated with the loans to the subsidiaries, VIEs and subsidiaries of VIEs. The parent company only condensed financial information should be read in conjunction with the Group' consolidated financial statements.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Tuniu Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Tuniu Corporation and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive loss, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15, management has excluded an online travel agency acquired in 2018 from its assessment of internal control over financial reporting as of December 31, 2018 because it was acquired by the Company in a purchase business combination during 2018. We have also excluded this online travel agency from our audit of internal control over financial reporting. This online travel agency is a subsidiary whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent 0.5% and 0.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
April 4, 2019

We have served as the Company's auditor since 2010, which includes periods before the Company became subject to SEC reporting requirements.

TUNIU CORPORATION
CONSOLIDATED BALANCE SHEETS

As of December 31, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
ASSETS			
Current assets			
Cash and cash equivalents	484,101	560,356	81,500
Restricted cash	91,810	270,670	39,367
Short-term investments	3,084,634	859,211	124,967
Accounts receivable, net	286,627	347,547	50,549
Amounts due from related parties	171,331	696,520	101,305
Prepayments and other current assets	939,463	1,673,584	243,413
Yield enhancement products and accrued interest	31,337	—	—
Total current assets	5,089,303	4,407,888	641,101
Non-current assets			
Long-term investments	484,991	1,302,506	189,442
Property and equipment, net	148,278	187,360	27,250
Intangible assets, net	460,634	317,885	46,234
Land use right, net	—	100,836	14,666
Goodwill	147,639	159,409	23,185
Yield enhancement products over one year and accrued interest	170,505	—	—
Other non-current assets	156,455	81,039	11,787
Total non-current assets	1,568,502	2,149,035	312,564
Total assets	6,657,805	6,556,923	953,665
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY			
Current liabilities (including current liabilities of the Affiliated Entities without recourse to the Company amounting to RMB2,453,662 and RMB2,691,090, as of December 31, 2017 and 2018, respectively):			
Accounts and notes payable	852,500	1,305,610	189,893
Amounts due to related parties	86,923	77,159	11,222
Salary and welfare payable	187,561	104,480	15,196
Taxes payable	32,036	23,316	3,391
Advances from customers	1,210,615	1,058,946	154,017
Accrued expenses and other current liabilities	373,690	533,144	77,544
Amounts due to the individual investors of yield enhancement products and accrued interests	177,971	—	—
Total current liabilities	2,921,296	3,102,655	451,263
Non-current liabilities			
Deferred tax liabilities	21,142	19,855	2,888
Other non-current liabilities	21,339	20,561	2,990
Total non-current liabilities	42,481	40,416	5,878
Total liabilities	2,963,777	3,143,071	457,141

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION
CONSOLIDATED BALANCE SHEETS

As of December 31, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Commitments and contingencies (Note 20)			
Redeemable noncontrolling interests	96,719	69,319	10,082
Equity			
Ordinary shares (US$0.0001 par value; 1,000,000,000 shares (including 780,000,000 Class A shares, 120,000,000 Class B shares and 100,000,000 shares to be designated by the Board of Directors) authorized as of December 31, 2017 and 2018; 388,918,015 shares (including 371,544,515 Class A shares and 17,373,500 Class B shares) and 389,331,544 shares (including 371,958,044 Class A shares and 17,373,500 Class B shares) issued and outstanding as of December 31, 2017 and 2018, respectively)	248	249	36
Less: Treasury stock	(185,419)	(304,535)	(44,293)
Additional paid-in capital	9,013,793	9,061,979	1,318,010
Accumulated other comprehensive income	272,386	284,079	41,318
Accumulated deficit	(5,505,897)	(5,691,409)	(827,781)
Total Tuniu Corporation shareholders' equity	3,595,111	3,350,363	487,290
Noncontrolling interests	2,198	(5,830)	(848)
Total equity	3,597,309	3,344,533	486,442
Total liabilities, redeemable noncontrolling interests and equity	6,657,805	6,556,923	953,665

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Revenues				
Packaged tours	10,147,148	1,589,353	1,830,630	266,254
Others	401,100	602,747	409,519	59,562
Total revenues	10,548,248	2,192,100	2,240,149	325,816
Less: Business and related taxes	(17,307)	—	—	—
Net revenues	10,530,941	2,192,100	2,240,149	325,816
Cost of revenues	(9,891,736)	(1,024,206)	(1,065,022)	(154,901)
Gross profit	639,205	1,167,894	1,175,127	170,915
Operating expenses				
Research and product development	(601,402)	(541,126)	(315,222)	(45,847)
Sales and marketing	(1,900,397)	(894,148)	(778,126)	(113,174)
General and administrative	(658,790)	(637,795)	(487,372)	(70,885)
Other operating income	22,323	21,749	56,599	8,232
Total operating expenses	(3,138,266)	(2,051,320)	(1,524,121)	(221,674)
Loss from operations	(2,499,061)	(883,426)	(348,994)	(50,759)
Other income/(expenses)				
Interest and investment income, net	87,305	130,250	152,929	22,243
Foreign exchange losses, net	(9,734)	(2,394)	(11,729)	(1,706)
Other (loss)/income, net	(2,553)	(121)	8,576	1,247
Loss before income tax expense	(2,424,043)	(755,691)	(199,218)	(28,975)
Income tax benefit/(expense)	1,711	(15,625)	(153)	(22)
Net loss	(2,422,332)	(771,316)	(199,371)	(28,997)
Net loss attributable to noncontrolling interests	(15,104)	(4,934)	(14,037)	(2,042)
Net (loss)/income attributable to redeemable noncontrolling interests	(34)	922	178	26
Net loss attributable to Tuniu Corporation	(2,407,194)	(767,304)	(185,512)	(26,981)
Accretion on redeemable noncontrolling interests	(106)	(5,725)	(2,422)	(352)
Net loss attributable to ordinary shareholders	(2,407,300)	(773,029)	(187,934)	(27,333)
Net loss	(2,422,332)	(771,316)	(199,371)	(28,997)
Other comprehensive income/(loss)				
Foreign currency translation adjustment, net of nil tax	233,900	(128,539)	11,693	1,701
Comprehensive loss	(2,188,432)	(899,855)	(187,678)	(27,296)
Comprehensive loss attributable to noncontrolling interests	(15,104)	(4,934)	(14,037)	(2,042)
Comprehensive (loss)/income attributable to redeemable noncontrolling interests	(34)	922	178	26
Comprehensive loss attributable to Tuniu Corporation	(2,173,294)	(895,843)	(173,819)	(25,280)
Loss per share				
Basic and diluted	(6.45)	(2.04)	(0.50)	(0.07)
Weighted average number of ordinary shares used in computing basic and diluted loss per share	373,347,855	378,230,039	377,744,381	377,744,381

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	Ordinary shares		Treasury Stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Accumulated deficit	Total Tuniu Corporation Shareholders' equity	Noncontrolling interests	Total Equity
	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of January 1, 2016	286,970,892	181	—	—	5,482,637	167,025	(2,331,399)	3,318,444	16,303	3,334,747
Issuance of ordinary shares upon the private placement, net of issuance costs of RMB3,414	90,909,091	60	—	—	3,275,775	—	—	3,275,835	—	3,275,835
Repurchase of ordinary shares	—	—	(985,299)	(19,708)	—	—	—	(19,708)	—	(19,708)
Issuance of ordinary shares pursuant to share incentive plan	1,590,774	1	—	—	5,266	—	—	5,267	—	5,267
Share-based compensation expenses	—	—	—	—	92,419	—	—	92,419	—	92,419
Foreign currency translation adjustments	—	—	—	—	—	233,900	—	233,900	—	233,900
Remeasurement of prior year acquisitions	—	—	—	—	—	—	—	—	(401)	(401)
Accretion on redeemable noncontrolling interests	—	—	—	—	(106)	—	—	(106)	—	(106)
Net loss	—	—	—	—	—	—	(2,407,194)	(2,407,194)	(15,104)	(2,422,298)
Balance as of December 31, 2016	379,470,757	242	(985,299)	(19,708)	8,855,991	400,925	(4,738,593)	4,498,857	798	4,499,655
Repurchase of ordinary shares	—	—	(8,986,053)	(165,711)	—	—	—	(165,711)	—	(165,711)
Issuance of ordinary shares pursuant to share incentive plan	9,447,258	6	—	—	67,587		—	67,593	—	67,593
Share-based compensation expenses	—	—	—	—	98,675	—	—	98,675	—	98,675
Capital contribution to a subsidiary with noncontrolling interest	—	—	—	—	(2,735)	—	—	(2,735)	6,334	3,599
Foreign currency translation adjustments	—	—	—	—		(128,539)	—	(128,539)	—	(128,539)
Accretion on redeemable noncontrolling interest					(5,725)	—	—	(5,725)	—	(5,725)
Net loss	—	—	—	—	—	—	(767,304)	(767,304)	(4,934)	(772,238)
Balance as of December 31, 2017	388,918,015	248	(9,971,352)	(185,419)	9,013,793	272,386	(5,505,897)	3,595,111	2,198	3,597,309

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	Ordinary shares		Treasury Stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Accumulated deficit	Total Tuniu Corporation Shareholders' equity	Noncontrolling interests	Total Equity
	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	RMB
Repurchase of ordinary shares	—	—	(9,917,211)	(141,471)	—	—	—	(141,471)	—	(141,471)
Issuance of ordinary shares pursuant to share incentive plan	413,529	1	564,663	22,355	(18,130)	—	—	4,226	—	4,226
Share-based compensation expenses	—	—	—	—	68,738	—	—	68,738	—	68,738
Capital contribution to a subsidiary with noncontrolling interest	—	—	—	—	—	—	—	—	2,117	2,117
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	3,892	3,892
Foreign currency translation adjustments	—	—	—	—	—	11,693	—	11,693	—	11,693
Accretion on redeemable noncontrolling interest	—	—	—	—	(2,422)	—	—	(2,422)	—	(2,422)
Net loss	—	—	—	—	—	—	(185,512)	(185,512)	(14,037)	(199,549)
Balance as of December 31, 2018	389,331,544	249	(19,323,900)	(304,535)	9,061,979	284,079	(5,691,409)	3,350,363	(5,830)	3,344,533
Balance as of December 31, 2018(US$ (Note 2(d)))	389,331,544	36	(19,323,900)	(44,293)	1,318,010	41,318	(827,781)	487,290	(848)	486,442

TUNIU CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Cash flows from operating activities:				
Net loss	(2,422,332)	(771,316)	(199,371)	(28,997)
Depreciation of property and equipment	66,510	65,704	66,903	9,731
Amortization of intangible assets and land use right	145,063	150,092	153,258	22,290
Allowance for doubtful accounts	30,919	45,808	2,568	374
Change in fair value of contingent consideration	(1,225)	5,572	(5,242)	(762)
Foreign exchange loss	7,597	673	14,279	2,077
Loss from disposal of property and equipment	859	562	1,368	199
Share-based compensation expenses	92,419	98,675	68,738	9,998
Change in deferred tax liabilities	(2,322)	(2,314)	(2,362)	(344)
Remeasurement of equity investments	—	—	(12,581)	(1,830)
Change in fair value of investments	—	—	(8,153)	(1,186)
Gain from disposal of equity investment	—	—	(1,850)	(269)
Changes in operating assets and liabilities:				
Accounts receivable	(92,147)	(64,286)	(60,584)	(8,812)
Amounts due from related parties	(395,228)	283,901	14,810	2,154
Prepayments and other current assets	(379,924)	691,932	(1,867)	(272)
Accrued interests of yield enhancement products	(29,318)	15,114	10,580	1,539
Other non-current assets	288,460	(9,668)	(25,606)	(3,724)
Accounts and notes payable	133,809	(167,262)	553,445	80,495
Amounts due to related parties	3,764	54,398	(9,765)	(1,420)
Salary and welfare payable	42,688	(4,930)	(83,274)	(12,112)
Taxes payable	(1,075)	20,417	(8,748)	(1,272)
Advances from customers	668,567	(595,876)	(152,335)	(22,156)
Accrued expenses and other liabilities	(399,107)	(221,018)	(34,719)	(5,050)
Accrued interests of amounts due to the individual investors of yield enhancement products	8,065	(11,183)	(6,559)	(954)
Non-current liabilities	(5,486)	(3,644)	(4,844)	(705)
Net cash (used in)/provided by operating activities	(2,239,444)	(418,649)	268,089	38,992
Cash flows from investing activities:				
Purchase of short-term investments	(5,097,309)	(2,488,010)	(1,858,032)	(270,240)
Proceeds from maturity of short-term investments	2,847,284	3,271,860	4,067,804	591,638
Purchase of yield enhancement products	(807,210)	—	—	—
Proceeds from maturity of yield enhancement products	538,485	434,977	172,458	25,083
Increase in loan receivable	(18,038)	(16,438)	(1,326,160)	(192,882)
Purchase of property and equipment and intangible assets	(117,894)	(160,497)	(119,442)	(17,372)
Cash paid for long-term investments	(57,500)	(426,227)	(874,120)	(127,135)
Proceeds from maturity of long-term investments	—	—	91,030	13,240
Cash received from disposal of equity investment	—	—	3,114	453
Cash paid for acquisition, net of cash received	(16,501)	(111)	(2,660)	(387)
Net cash (used in)/provided by investing activities	(2,728,683)	615,554	153,992	22,398

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Cash flows from financing activities:				
Proceeds from the private placement, net of issuance cost	3,275,835	—	—	—
Cash paid for repurchase of ordinary shares	(19,708)	(166,149)	(139,070)	(20,227)
Proceeds from issuance of ordinary shares upon exercise of options	8,483	67,344	4,585	667
Contingent consideration paid for business acquisitions	(2,250)	(6,800)	(6,800)	(989)
Repurchase of redeemable noncontrolling interests	—	—	(30,000)	(4,363)
Cash contribution from noncontrolling interests	—	3,599	2,117	308
Proceeds from sales/(redemption) of yield enhancement products	274,698	(682,760)	(171,412)	(24,931)
Repayment of short-term borrowings	—	—	(390)	(59)
Proceeds from short-term and long-term borrowings	—	—	195,758	28,472
Cash contribution from redeemable noncontrolling interest holders	90,000	—	—	—
Net cash provided by/(used in) financing activities	3,627,058	(784,766)	(145,212)	(21,122)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	110,652	(46,025)	(21,754)	(3,164)
Net (decrease)/increase in cash, cash equivalents and restricted cash	(1,230,417)	(633,886)	255,115	37,104
Cash, cash equivalents and restricted cash at the beginning of year	2,440,214	1,209,797	575,911	83,763
Cash, cash equivalents and restricted cash at the end of year	1,209,797	575,911	831,026	120,867
Supplemental disclosure of cash flow information				
Income tax paid	1,506	12,199	3,740	544
Supplemental disclosure of non-cash investing and financing activities				
Accrual related to purchase of property and equipment	16,963	11,859	5,202	757
Receivables related to exercise of stock options	(163)	(385)	(23)	(3)
Accrual related to business acquisition	39,344	38,116	36,456	5,302

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

1. Organization and Principal Activities

Tuniu Corporation (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands. The Company, its subsidiaries and the consolidated variable interest entity ("VIE") and its subsidiaries (collectively referred to as the "Affiliated Entities") are collectively referred to as the "Group". The Group's principal activity is the provision of travel-related services in the People's Republic of China ("PRC").

As of December 31, 2018, the Company's significant consolidated subsidiaries and the consolidated Affiliated Entities are as follows:

Name of subsidiaries and Affiliated entities	Date of establishment/acquisition	Place of incorporation	Percentage of direct or indirect economic ownership
Subsidiaries of the Company:			
Tuniu (HK) Limited	Established on May 20, 2011	Hong Kong	100%
Tuniu (Nanjing) Information Technology Co., Ltd.	Established on August 24, 2011	PRC	100%
Beijing Tuniu Technology Co., Ltd. ("Beijing Tuniu")	Established on September 8, 2008	PRC	100%
Xiamen Suiwang International Travel Service Co., Ltd.	Established on January 26, 2016	PRC	100%
Tianjin Tuniu International Travel Service Co., Ltd.	Established on March 23, 2016	PRC	100%
Variable Interest Entity ("VIE")			
Nanjing Tuniu Technology Co., Ltd. ("Nanjing Tuniu")	Established on December 18, 2006	PRC	100%
Subsidiaries of VIE			
Shanghai Tuniu International Travel Service Co., Ltd.	Acquired on August 22, 2008	PRC	100%
Nanjing Tuniu International Travel Service Co., Ltd.	Acquired on December 22, 2008	PRC	100%
Beijing Tuniu International Travel Service Co., Ltd.	Acquired on November 18, 2009	PRC	100%
Nanjing Tuzhilv Tickets Sales Co., Ltd.	Established on April 19, 2011	PRC	100%
Beijing Global Tour International Travel Service Co., Ltd.	Acquired on July 1, 2015	PRC	75.02%
Tuniu Insurance Brokers Co., Ltd.	Acquired on August 11, 2015	PRC	100%

2. Principal Accounting Policies

(a) Basis of Presentation

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial statements of 2016 have been adjusted to conform to the current year presentation. Such adjustments relate to the adoptions of Accounting Standards Update ("ASU") 2014-09 as further described in Note 2(s) "Revenue Recognition" and Note 2(af) "Recently Issued Accounting Pronouncements".

Liquidity

The Group's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations. The Group incurred net losses of approximately RMB2,407,194, RMB767,304 and RMB185,512 for the years ended December 31, 2016, 2017 and 2018, respectively. Net cash used in operating activities was approximately RMB2,239,444 and RMB418,649 for the years ended December 31, 2016 and 2017 respectively, and net cash provided by operating activities was RMB268,089 for the year ended December 31, 2018. Accumulated deficit was RMB4,738,593, RMB5,505,897 and RMB5,691,409 as of December 31, 2016, 2017 and 2018, respectively. The Group has adopted ASU No. 2014-15, "Presentation of Financial Statements — Going Concern". As of December 31, 2018, the Group had net current assets and management believes that the Group's available cash, cash equivalents, short-term investments and cash generated from operations will be sufficient to meet working capital requirements and capital expenditures in the ordinary course of business for the next twelve months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the Affiliated Entities for which the Company is the primary beneficiary. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power, has the power to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of board of directors, or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, has controlling interest and therefore the Company or its subsidiary is the primary beneficiary of the entity. In determining whether the Company or its subsidiary has controlling interests in a VIE, the Company considers whether the company or its subsidiary has the power to direct activities that most significantly impact the VIE's economic performance, and the right to receive benefits from the VIE or the obligation right to absorb losses of the VIE that could be potentially significant to the VIE.

All significant transactions and balances among the Company, its subsidiaries and the Affiliated Entities have been eliminated upon consolidation.

To comply with PRC laws and regulations that restrict foreign equity ownership of companies that operate internet content, travel agency and air-ticketing services, the Company operates its website and engaged in such restricted services through Nanjing Tuniu and its subsidiaries. Nanjing Tuniu's equity interests are held by Dunde Yu, the Company's Chief Executive Officer, Haifeng Yan, the Company's director, and several other PRC citizens. On September 17, 2008, Beijing Tuniu, one of the Company's wholly owned subsidiaries, entered into a series of agreements with Nanjing Tuniu and its shareholders. Pursuant to these agreements, Beijing Tuniu has the ability to direct substantially all the activities of Nanjing Tuniu, and absorb substantially all of the risks and rewards of the Affiliated Entities. As a result, Beijing Tuniu is the primary beneficiary of Nanjing Tuniu, and has consolidated the Affiliated Entities.

Contractual arrangements

On September 17, 2008, Beijing Tuniu entered into a series of contractual agreements with Nanjing Tuniu and its shareholders. The following is a summary of the agreements which allow the Company to exercise effective control over Nanjing Tuniu:

(1) Purchase Option Agreement.

Under the purchase option agreement entered between Beijing Tuniu and the shareholders of Nanjing Tuniu on September 17, 2008, Beijing Tuniu has the irrevocable exclusive right to purchase, or have its designated person or persons to purchase all or part of the shareholders' equity interests in Nanjing Tuniu at RMB1,800 which was increased to RMB2,430 in March 2014. The option term remains valid for a period of 10 years and can be extended indefinitely at Beijing Tuniu's discretion. The purchase consideration was paid by Beijing Tuniu to the shareholders of Nanjing Tuniu shortly after the purchase option agreement was entered. On January 24, 2014, the Company amended and restated the purchase option agreement, and the effective term of the purchase option agreement has been changed to until all equity interests held in Nanjing Tuniu are transferred or assigned to Beijing Tuniu or its designated person or persons.

(2) Equity Interest Pledge Agreement.

Under the equity interest pledge agreement entered between Beijing Tuniu and the shareholders of Nanjing Tuniu on September 17, 2008, the shareholders pledged all of their equity interests in Nanjing Tuniu to guarantee their performance of their obligations under the purchase option agreement. If the shareholders of Nanjing Tuniu breach their contractual obligations under the purchase option agreement, Beijing Tuniu, as the pledgee, will have the right to either conclude an agreement with the pledgor to obtain the pledged equity or seek payments from the proceeds of the auction or sell-off of the pledged equity to any person pursuant to the PRC law. The shareholders of Nanjing Tuniu agreed that they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. During the equity pledge period, Beijing Tuniu is entitled to all dividends and other distributions made by Nanjing Tuniu. The equity interest pledge agreement remains effective until the shareholders of Nanjing Tuniu discharge all their obligations under the purchase option agreement, or Beijing Tuniu enforces the equity interest pledge, whichever is earlier.

2. Principal Accounting Policies - continued

(b) Principles of Consolidation - continued

(3) Shareholders' Voting Rights Agreement.

Under the shareholders' voting rights agreement entered between Beijing Tuniu and the shareholders of Nanjing Tuniu on September 17, 2008, each of the shareholders of Nanjing Tuniu appointed Beijing Tuniu's designated person as their attorney-in-fact to exercise all of their voting and related rights with respect to their equity interests in Nanjing Tuniu, including attending shareholders' meetings, voting on all matters of Nanjing Tuniu, nominating and appointing directors, convene extraordinary shareholders' meetings, and other voting rights pursuant to the then effective articles of association. The shareholders' voting rights agreement will remain in force for an unlimited term, unless all the parties to the agreement mutually agree to terminate the agreement in writing or cease to be shareholders of Nanjing Tuniu.

(4) Irrevocable Powers of Attorney.

Under the powers of attorney issued by the shareholders of Nanjing Tuniu on September 17, 2008, the shareholders of Nanjing Tuniu each irrevocably appointed Mr. Tao Jiang, a person designated by Beijing Tuniu, as the attorney-in-fact to exercise all of their voting and related rights with respect to their equity interests in Nanjing Tuniu. Each power of attorney will remain in force until the shareholders' voting rights agreement expires or is terminated. On January 24, 2014, the shareholders of Nanjing Tuniu issued powers of attorney to irrevocably appoint Beijing Tuniu as the attorney-in-fact to exercise all of their voting and related rights with respect to their equity interests in Nanjing Tuniu. These powers of attorney replaced the powers of attorney previously granted to Mr. Tao Jiang on September 17, 2008.

(5) Cooperation Agreement.

Under the cooperation agreement entered between Beijing Tuniu and Nanjing Tuniu, Beijing Tuniu has the exclusive right to provide Nanjing Tuniu technology consulting and services related to Nanjing Tuniu's operations, which require certain licenses. Beijing Tuniu owns the exclusive intellectual property rights created as a result of the performance of this agreement. Nanjing Tuniu agrees to pay Beijing Tuniu a monthly service fee for services performed, and the monthly service fee shall not be lower than 100% of Nanjing Tuniu's profits generated from such cooperation, which equal revenues generated from such cooperation, after deducting the expenses it incurred. This agreement remains effective for an unlimited term, unless the parties mutually agree to terminate the agreement, one of the parties is declared bankrupt or Beijing Tuniu is not able to provide consulting and services as agreed for more than three consecutive years because of force majeure. On January 24, 2014, the Company amended and restated the Cooperation Agreement. In the amended and restated agreement, the service fee has been changed to a quarterly payment which equals the profits of each of Nanjing Tuniu and its subsidiaries, and that Beijing Tuniu can adjust the service fee at its own discretion. Also in the amended and restated Cooperation Agreement, Beijing Tuniu has the unilateral right to terminate the agreement.

In the years ended December 31, 2016, 2017 and 2018, the Company and its subsidiaries received service fees of RMB109,572, RMB138,054 and RMB197,853, respectively, from its consolidated Affiliated Entities, which were eliminated in the consolidated financial statements.

2. Principal Accounting Policies - continued

(b) Principles of Consolidation - continued

Risks in relation to the VIE structure

The Group believes that each of the agreements and the powers of attorney under the contractual arrangements among Beijing Tuniu, Nanjing Tuniu and its shareholders is valid, binding and enforceable, and does not and will not result in any violation of PRC laws or regulations currently in effect. The legal opinion of Fangda Partners, which was the Company's PRC legal counsel, also supports this conclusion. The shareholders of Nanjing Tuniu are also shareholders, nominees of shareholders, or designated representatives of shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and if the shareholders of Nanjing Tuniu were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms.

The Company's ability to control Nanjing Tuniu also depends on the power of attorney Beijing Tuniu has to vote on all matters requiring shareholder approval in Nanjing Tuniu. As noted above, the Company believes this power of attorney is legally enforceable but it may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC government could:

- levying fines or confiscate the Group's income;
- revoke the Group's business or operating licenses;
- require the Group to discontinue, restrict or restructure its operations;
- shut down the Group's servers or block the Group's websites and mobile platform;
- restrict or prohibit the use of the Group's financing proceeds to finance its business and operations in China; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business

The imposition of any of these penalties may result in a material and adverse effect on the Group's ability to conduct the Group's business. In addition, the imposition of any of these penalties may cause the Group to lose the right to direct the activities of Nanjing Tuniu (through its equity interest in its subsidiaries) or the right to receive economic benefits from the Affiliated Entities. Therefore, a risk exists in that the Group would no longer be able to consolidate Nanjing Tuniu and its subsidiaries. In March 2019, the PRC National People's Congress promulgated the Foreign Investment Law, or the 2019 PRC Foreign Investment Law, which will become effective on January 1, 2020 and will replace the major existing laws and regulations governing foreign investment in the PRC. The approved Foreign Investment Law does not touch upon the relevant concepts and regulatory regimes that were historically suggested for the regulation of VIE structures, and thus this regulatory topic remains unclear under the Foreign Investment Law. As the 2019 PRC Foreign Investment Law is newly adopted and relevant government authorities may promulgate more laws, regulations or rules on the interpretation and implementation of the 2019 PRC Foreign Investment Law, the possibility can't be ruled out that the VIE structure adopted by the Group may be deemed as a method of foreign investment by, any of such future laws, regulations and rules, which cause significant uncertainties as to whether the Group's VIE structures would be treated as a method of foreign investment. If the Group's VIE structure would be deemed as a method of foreign investment under any of such future laws, regulations and rules, and any of the Group's businesses operation would fall in the "negative list" for foreign investment that is subject to any foreign investment restrictions or prohibitions, the Group would be required to take further actions to comply with such laws, regulations and rules, which may materially and adversely affect the Group's current corporate structure, corporate governance, business, financial conditions and results of operations.

Summary financial information of the Affiliated Entities in the consolidated financial statements

As of December 31, 2018, the aggregate accumulated deficit of the Affiliated Entities was RMB3,764 million prior to the elimination of transactions between the Affiliated Entities and the Company or the Company's subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(b) Principles of Consolidation - continued

The following assets, liabilities, revenues and loss of the Affiliated Entities were included in the consolidated financial statements as of December 31, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
ASSETS			
Current assets			
Cash and cash equivalents	289,259	254,373	36,997
Restricted cash	90,854	261,559	38,042
Short-term investments	1,685,045	584,032	84,944
Accounts receivable, net	140,464	266,225	38,721
Intercompany receivables	1,595,225	499,276	72,617
Prepayments and other current assets	228,604	769,824	111,966
Yield enhancement products and accrued interest	21,337	—	—
Total current assets	4,050,788	2,635,289	383,287
Non-current assets			
Long-term investments	501,227	1,022,453	148,710
Property and equipment, net	84,755	137,267	19,965
Intangible assets, net	95,550	85,388	12,419
Goodwill	137,074	137,074	19,937
Yield enhancement products over one year and accrued interest	170,505	—	—
Other non-current assets	27,258	66,335	9,648
Total non-current assets	1,016,369	1,448,517	210,679
Total assets	5,067,157	4,083,806	593,966
LIABILITIES			
Current liabilities			
Accounts and notes payable	629,707	1,251,543	182,029
Salary and welfare payable	157,440	82,254	11,963
Taxes payable	8,952	11,809	1,718
Advances from customers	1,145,306	998,041	145,159
Intercompany payable	4,966,577	5,141,083	747,740
Accrued expenses and other current liabilities	334,286	347,443	50,533
Amount due to the individual investors of yield enhancement products	177,971	—	—
Total current liabilities	7,420,239	7,832,173	1,139,142
Non-current liabilities	1,378,584	17,838	2,594
Total liabilities	8,798,823	7,850,011	1,141,736

(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(b) Principles of Consolidation - continued

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Net revenues	10,562,269	1,954,746	1,524,924	221,791
Net loss	(2,034,208)	(348,755)	(29,031)	(4,222)
Net cash (used in)/provided by operating activities	(972,677)	(232,926)	31,282	4,550
Net cash used in investing activities	(208,278)	(1,021,286)	(465,029)	(67,636)
Net cash provided by financing activities	995,740	1,303,661	569,565	82,840

Certain financial data of 2016 listed in the tables above have been recast as a result of the adoption of Accounting Standards Update ("ASU") 2014-09 as further described in Note 2(s) "Revenue Recognition" and Note 2(af) "Recently Issued Accounting Pronouncements".

Currently there is no contractual arrangement that could require the Company to provide additional financial support to the Affiliated Entities. As the Company is conducting its business mainly through the Affiliated Entities, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

Under the contractual arrangements with Nanjing Tuniu and through its equity interest in its subsidiaries, the Group has the power to direct the activities of the Affiliated Entities and direct the transfer of assets out of the Affiliated Entities. As the consolidated Affiliated Entities are each incorporated as a limited liability company under the PRC Company Law, the creditors do not have recourse to the general credit of the Company for all of the liabilities of the consolidated Affiliated Entities.

(c) Use of Estimates

The preparation of the Group's consolidated financial statements in conformity with the U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ materially from those estimates. Significant accounting estimates reflected in the Group's consolidated financial statements mainly include fair value of short-term and long-term investments, recoverability of receivables, estimating useful lives of property and equipment and intangible assets, impairment for goodwill and long-lived assets, the purchase price allocation in relation to business combination, fair value of contingent considerations with respect to business combinations, losses due to committed tour reservations, the valuation allowance for deferred tax assets and the determination of uncertain tax positions.

(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(d) Functional Currency and Foreign Currency Translation

The Group uses Renminbi ("RMB") as its reporting currency. The functional currency of the Company and its subsidiaries incorporated outside of PRC is the United States dollar ("US$"), while the functional currency of the PRC entities in the Group is RMB as determined based on ASC 830, *Foreign Currency Matters* .

Transactions denominated in other than the functional currencies are re-measured into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are re-measured at the balance sheet date exchange rate. The resulting exchange differences are included in the consolidated statements of comprehensive loss as foreign exchange gains / losses.

When preparing the consolidated financial statements presented in RMB, assets and liabilities of the Company and its subsidiaries incorporated outside of PRC are translated into RMB at fiscal year-end exchange rates, and equity accounts are translated into RMB at historical exchange rates. Income and expense items are translated at average exchange rates prevailing during the respective fiscal years. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of accumulated other comprehensive income or loss in the consolidated statement of changes in shareholders' equity.

The unaudited United States dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the readers. Translations of amounts from RMB into US$ for the convenience of the reader were calculated at the rate of US$1.00 = RMB6.8755 on December 31, 2018, as set forth in H.10 statistical release of the Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US$ at that rate on December 31, 2018, or at any other rate.

(e) Fair Value Measurement

The Group defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs may be used to measure fair value include:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Group's financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable, amounts due from and due to related parties, balance in relation to yield enhancement products, long-term investments in financial products, contingent consideration for acquisitions and certain accrued liabilities and other current liabilities. The carrying values of these financial instruments approximated their fair values due to the short-term maturity of these instruments except for certain investments which are carried at fair value at each balance sheet date. Certain short-term and long-term investments in financial products and securities classified within Level 2 are valued using directly or indirectly observable inputs in the market place. Certain long-term investments in financial products classified within Level 3 are valued based on a model utilizing unobservable inputs which require significant management judgment and estimation.

The Group's assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using Significant Other Observable Inputs (Level 2)		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Short-term investments	3,084,634	562,794	81,855
Long-term investments	394,923	52,441	7,627

(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(e) Fair Value Measurement - continued

	Fair Value Measurement Using Unobservable Inputs (Level 3)		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Short-term investments	—	255,237	37,123
Long-term investments	—	844,843	122,877
Contingent consideration for acquisitions - short term	26,925	25,692	3,756
Contingent consideration for acquisitions - long term	11,191	10,764	1,566

The roll forward of major Level 3 investments are as following:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Fair value of Level 3 investment at the beginning of the year	—	—	—
Addition	—	1,547,135	225,022
Decrease		(457,564)	(66,550)
The change in fair value of the investments	—	10,509	1,528
Fair value of Level 3 investment at the end of the year	—	1,100,080	160,000

The Company determined the fair value of its investments by using income approach with significant unobservable inputs of future cashflows and discount rate ranging from 6.0% to 9.0%.

The roll forward of contingent consideration for acquisitions is as below:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Balance at the beginning of the year	39,344	38,116	5,544
Addition	—	10,382	1,509
Net change in fair value	5,572	(5,242)	(762)
Payment	(6,800)	(6,800)	(989)
Balance at the end of the year	38,116	36,456	5,302

Contingent consideration is valued using an expected cash flow method with unobservable inputs including the probability to achieve the operating and financial targets, which is assessed by the Group, in connection with the contingent consideration arrangements.

(f) Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and demand deposits placed with banks, other financial institutions and Alipay, a third party payment processor, which are unrestricted as to withdrawal or use.

(g) Restricted Cash

Restricted cash represents cash that cannot be withdrawn without the permission of third parties. The Group’s restricted cash mainly represents (i) cash deposits required by tourism administration departments as a pledge to secure travellers’ rights and interests, (ii) cash deposits required by China Insurance Regulatory Commission for engaging in insurance agency or brokering activities. (iii) the deposits held in designated bank accounts for issuance of bank acceptance notes and letter of guarantee, and required by the Group’s business partners.

(h) Short-term Investments

Short-term investments are comprised of (i) held-to-maturity investments such as time deposits, which are due between three months and one year and stated at amortized cost; and (ii) equity securities and investments in financial products issued by banks or other financial institutions, which contain a fixed or variable interest rate and with original maturities between three months and one year. Such investments are generally not permitted to be redeemed early or are subject to penalties for redemption prior to maturity. These investments are stated at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive loss. There was no other-than-temporary impairment of short-term investments for the years ended December 31, 2016, 2017 and 2018.

(i) Accounts Receivable, net

The Group’s accounts receivable mainly consist of amounts due from the corporate customers, travel agents, insurance companies and travel boards or bureaus, which are carried at the original invoice amount less an allowance for doubtful accounts. The Group reviews accounts receivable on a periodic basis and makes allowances when there is doubt as to the collectability of individual balances. The Group evaluates the collectability of accounts receivable considering many factors including reviewing accounts receivable balances, historical bad debt rates, payment patterns, counterparties’ credit worthiness and financial conditions, and industry trend analysis. The Group recognized allowance for doubtful accounts of RMB5,297, RMB13,332 and RMB3,299 for the years ended December 31, 2016, 2017 and 2018, respectively.

The following table summarized the details of the Group’s allowance for doubtful accounts:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Balance at beginning of year	—	4,856	16,905	2,459
Addition	5,297	13,332	4,200	611
Reversal	—	—	(901)	(131)
Write-offs	(441)	(1,283)	—	—
Balance at end of period	4,856	16,905	20,204	2,939

(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(j) Long-term investments

Long-term investments include equity investments, held-to-maturity investments and other long-term investments.

Equity investments

The Group accounts for the investments in entities with significant influence under equity-method accounting. Under this method, the Group's pro rata share of income (loss) from an investment is recognized in the consolidated statements of comprehensive loss. Dividends received reduce the carrying amount of the investment. Equity-method investment is reviewed for impairment by assessing if the decline in fair value of the investment below the carrying value is other-than-temporary. In making this determination, factors are evaluated in determining whether a loss in value should be recognized. These include consideration of the intent and ability of the Group to hold investment and the ability of the investee to sustain an earnings capacity, justifying the carrying amount of the investment. Impairment losses are recognized when a decline in value is deemed to be other-than-temporary.

The Group adopted the ASU 2016-01, *"Financial Instruments — Overall (Subtopic 825-10) — Recognition and Measurement of Financial Assets and Financial Liabilities"*, effective from January 1, 2018. The Group elects a measurement alternative for equity investments that do not have readily determinable fair values and where the Group does not have the ability to exercise significant influence over operating and financial policies of the entity. Under the measurement alternative, the Group measures these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. An impairment loss is recognized in the consolidated statements of comprehensive loss equal to the excess of the investment's cost over its fair value when the impairment is deemed other-than-temporary.

Held-to-maturity investments

The investments that the Group intends and is able to hold to maturity are classified as held-to-maturity investments and are stated at amortized cost, and interest income is recorded in the consolidated statements of comprehensive income. The Group monitors these investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information.

Other long-term investments

Other long-term investments include financial products with maturities over one year and securities including perpetual bonds and preferred shares issued by companies, which are carried at their fair value at each balance sheet date and changes in fair value are reflected in the consolidated statements of operations and comprehensive income.

No event had occurred and indicated that other-than-temporary impairment existed and therefore the Group did not record any impairment charges for its investments for the years ended December 31, 2016, 2017 and 2018.

(k) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and impairment if applicable. Property and equipment are depreciated over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Category	Estimated useful life
Computers and equipment	3 - 5 years
Buildings	16 - 20 years
Furniture and fixtures	3 - 5 years
Vehicles	3 - 5 years
Software	5 years
Leasehold improvements	Over the shorter of the lease term or the estimated useful life of the asset ranging from 1 – 9 years

2. Principal Accounting Policies - continued

(k) Property and Equipment - continued

Construction in progress represents leasehold improvements under construction or being installed and is stated at cost. Cost comprises original cost of property and equipment, installation, construction and other direct costs. Construction in progress is transferred to leasehold improvements and depreciation commences when the asset is ready for its intended use.

Gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of comprehensive loss.

(l) Land use right, net

Land use right represents the payments for usage of land for office buildings, which is recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over their respective lease period which is 49.

(m) Capitalized Software Development Cost

The Group has capitalized certain direct development costs associated with internal-used software in accordance with ASC 350-40, " *Internal-use software"* , which requires the capitalization of costs relating to certain activities of developing internal-use software that occur during the application development stage. Costs capitalized mainly include payroll and payroll-related costs for employees who devoted time to the internal-use software projects during the application development stage. Capitalized internal-use software costs are stated at cost less accumulated amortization and the amount is included in "property and equipment, net" on the consolidated balance sheets, with an estimated useful life of five years. Software development cost capitalized amounted to RMB8,516, RMB19,545 and RMB75,443 for the years ended December 31, 2016, 2017 and 2018, respectively. The amortization expense for capitalized software costs amounted to RMB3,768, RMB5,729 and RMB14,699 for the years ended December 31, 2016, 2017 and 2018, respectively. The unamortized amount of capitalized internal use software development costs was RMB91,684 as of December 31, 2018.

(n) Business combination

U.S. GAAP requires that all business combinations not involving entities or businesses under common control be accounted for under the purchase method. The Group has adopted ASC 805 *"Business Combinations"* , and the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred and equity instruments issued. The transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of the (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of operations and comprehensive income.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to forecast the future cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although management believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material. The Group recognized adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined.

A noncontrolling interest is recognized to reflect the portion of a subsidiary's equity which is not attributable, directly or indirectly, to the Group. Consolidated net loss on the consolidated statements of comprehensive loss includes the net loss attributable to noncontrolling interests when applicable. The cumulative results of operations attributable to noncontrolling interests are also recorded as noncontrolling interests in the Group's consolidated balance sheets. Cash flows related to transactions with noncontrolling interests are presented under financing activities in the consolidated statements of cash flows when applicable.

Subsequent to the initial measurement of acquisition, adjustments to the amount of contingent consideration are recognized as a gain or loss during the period of adjustments, and are reflected in other operating income.

2. Principal Accounting Policies - continued

(o) Intangible Assets

Intangible assets purchased are recognized and measured at cost upon acquisition and intangible assets arising from acquisitions of subsidiaries are recognized and measured at fair value upon acquisition. The Company's purchased intangible assets include computer software, which are amortized on a straight-line basis over their estimated useful lives 3 years. Separable intangible assets arising from acquisitions consist of trade names, customer relationship, software, technology, non-compete agreements, travel licenses, insurance agency license and business cooperation agreement with JD.com Inc., which are amortized on a straight-line basis over their estimated useful lives of 3.5 to 20 years. The estimated life of intangible assets subject to amortization is reassessed if circumstances occur that indicate the life has changed. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. No impairment of intangible assets was recognized for the years ended December 31, 2016, 2017 and 2018.

(p) Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill is not amortized, but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

The Group adopted Accounting Standards Update ("ASU") 2011-08, " *Intangibles—Goodwill and Other (Topic 350)* ". This accounting standard gives the Group an option to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is then tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying amount of a reporting unit's goodwill. The fair value of each reporting unit is determined by the Group using the expected present value of future cash flows. The key assumptions used in the calculation include the long-term growth rates of revenue and gross margin, working-capital requirements and discount rates. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination, with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

Management performed goodwill impairment test and no impairment loss was recognized for the years ended December 31, 2016, 2017 and 2018.

2. Principal Accounting Policies - continued

(q) Impairment of long-lived assets

The Group evaluates its long-lived assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Group measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss equal to the difference between the carrying amount and fair value of these assets. No impairment of long-lived assets was recognized during the years ended December 31, 2016, 2017 and 2018.

(r) Advances from Customers

Advances from customers represent the amounts travellers pay in advance to purchase packaged tours or other travelling products. Among the cash proceeds from travellers, the amounts payable to tour operators are recorded as accounts payable and the remaining are recognized as revenues when revenue recognition criteria are met.

(s) Revenue Recognition

The Group's revenue is primarily derived from sales of packaged tours and other service fees.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. Subsequently, the FASB issued several amendments which amends certain aspects of the guidance in ASC 2014-09 (ASU No. 2014-09 and the related amendments are collectively referred to as "ASC 606"). According to ASC 606, revenue is recognized when control of the promised services is transferred to our customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those services. The Group adopted this new revenue standard effective from January 1, 2017 by applying the full retrospective method. Refer to note 2(af) for the effects of the adoption of ASC 606 on the Group's consolidated statements of comprehensive loss for the year ended December 31, 2016. There are no significant estimates in the Group's revenue arrangements.

Packaged tours: Packaged tours include organized tours which offer pre-arranged itineraries, transportations, accommodations, entertainments, meals and tour guide services; and self-guided tours which consist of combinations of air tickets and hotel bookings and other optional add-ons, such as airport pick-ups that the travellers choose at their discretion.

Prior to January 2017, substantially all of the Group's revenues from organized tours were recognized on a gross basis, which represented amounts charged to and received from travellers (who were the Group's customers). The Group was the primary obligor in the organised tour arrangements and bore the risks and rewards, including the travellers' acceptance of products and services delivered. Even though the Group did not generally assume the substantive inventory risk before travellers placed an order, the Group was the party retained by and paid by the travellers, and the Group was responsible to (and solely authorized to) refund travellers their payments in situations of customer disputes. Further, the Group independently selected travel service suppliers, and determined the prices charged to customers and paid to its travel suppliers.

Since the beginning of 2017, the Group has implemented certain changes in its arrangements with the tour operators. The Group's role in the organized tour arrangements has changed from being a principal into an agent that provides tour booking services to the tour operators and travellers. Under the current organized tour arrangements, the tour operators are primarily responsible for all aspects of providing services relating to the tour and responsible for the resolution of customer disputes and any associated costs. As a result of the change of the Group's role, starting from January 1, 2017, revenues from organized tours (except for those that the Group takes substantive inventory risks and the self-operated local tour operators in which the Group acts as a principal, as discussed below) are generally reported on net basis, representing the difference between what the Group receives from the travellers and the amounts due to the tour operators.

Revenues from self-guided tours are recognized on a net basis, as the Group has no involvement in determining the service, and provides no additional services to travellers other than the booking services. Suppliers are responsible for all aspects of providing the air transportation and hotel accommodation, and other travel-related services. As such, the Group is an agent for the travel service providers in these transactions and revenues are reported on a net basis.

2. Principal Accounting Policies - continued

(s) Revenue Recognition - continued

Under certain circumstances, the Group may enter into contractual commitments with suppliers to reserve tours, and is required to pay a deposit to ensure tour availabilities. Some of these contractual commitments are non-cancellable, and to the extent the reserved tours are not sold to customers, the Group would be liable to pay suppliers a pre-defined or negotiated penalty, thereby assuming inventory risks. For packaged tour arrangements that the Group undertakes inventory risk which is considered to be substantive, revenues are recognized on gross basis. Revenues for such arrangements that the Group undertakes substantive inventory risk were RMB497, 918 and RMB241,181 for the years ended December 31, 2017 and 2018, which were recorded in revenues for packaged tours.

In 2018, the Group expanded self-operated local tour operators in various destinations by directly providing destination-based services to the organized tour customers, starting from their arrival at the destination and all the way until they depart from the destination. As a self-operated local tour operator, the Group integrates the underlying resources such as transportations, accommodations, entertainments, meals and tour guide services from selected suppliers, directs the selected vendors to provide services on the Group’s behalf, and hence sets up the price for the tour. Besides, the Group is primarily responsible for fulfilling the promise of the whole packaged tours service, which is a single performance obligation. Accordingly, the Group is a principal for the self-operated local tour operator business and recognizes revenue on a gross basis in accordance with ASC 606. Revenues from the self-operated tour operator business are recognized over time during the period of the tours when control over the tour services is transferred to the customers. Revenues for the self-operated local tour operator business were RMB509,737 for the year ended December 31, 2018, which were recorded in revenues for packaged tours.

Under ASC 606, revenues from organized tours for which the Group was a principal for year 2016 were recognized over the period of the tours when control over the tour services was transferred to the customers over such period. Starting from January 1, 2017, under the current arrangements for the organized tours (except for the self-operated local tour operators in which the Group acts as a principal, as discussed above), for which the Group’s role was changed into an agent, revenues are recognized when the tours depart, as control over the tour booking services is transferred to the customers when the tour booking is completed and successful.

Under ASC 606, revenues from self-guided tours are recognized when the tours depart.

Other revenues : Other revenues primarily comprise revenues generated from (i) service fees received from insurance companies, (ii) commission fees from other travel-related products and services, such as tourist attraction tickets, visa application services, accommodation reservation and transportation ticketing, (iii) fees for advertising services that we provide primarily to domestic and foreign tourism boards and bureaus, and (iv) service fees for financial services and interest income for yield enhancement products. Revenue is recognized when the services are rendered or when the tickets are issued.

The Group commenced the financial business in 2015. Certain domestic financial assets exchanges (the “Exchange”) and trust companies offered the yield enhancement products through the Group’s online platform and the Group charged these companies for the service fees which were recorded as other revenue upon the delivery of service. The service revenues were insignificant for the years ended December 31, 2016, 2017 and 2018.

Further, from 2016 in certain cases, the Group purchased yield enhancement products with maturities ranged from three months to two years from the Exchanges and trust companies and split these products into smaller amount yield enhancement products with lower yield rate and shorter maturities within one year, which were offered to individual investors through the Group’s online platform. The split of the products were arranged by Exchanges. As of December 31, 2017, yield enhancement products purchased from the Exchanges and trust companies with maturities within one year and accrued interest with the balances of RMB31,337 were recorded in current assets, and balances with the maturities over one year of RMB170,505 were recorded in non-current assets. Interest revenues of RMB50,867 were recorded as other revenues for the year ended December 31, 2017. As of December 31, 2017, yield enhancement products held by the individual investors with maturities within one year of RMB177,971 were recorded in current liabilities. Interest costs of RMB34,499 were recorded as cost of revenue for the year ended December 31, 2017. In 2018, the Group terminated this financial service thus there were no related balances as of December 31, 2018. The interest revenues and costs were insignificant for the year ended December 31, 2018.

The Group also provided account receivables factoring service and cash lending service to customers and fees charged in connection with these financial services were recorded as other revenue over the period of the service rendered. The amount of such service revenue for the year ended December 31, 2018 was RMB117,537.

The Group provided online lending service in 2017 and fees charged in connection with this service was RMB220,701 for the year ended December 31, 2017. This service was terminated in late 2017.

2. Principal Accounting Policies - continued

(s) Revenue Recognition - continued

Customer incentives

From time to time, travelers are offered coupons, travel vouchers, membership points, or cash rewards as customer incentives. For customer incentives offered where prior purchase is not required, the Group accounts for them as a reduction of revenue when the coupons and vouchers are utilized to purchase travelling products or as selling and marketing expenses when membership points are redeemed for merchandises. For customer incentives offered from prior purchase, the Group estimates the amount associated with the future obligation to customers, and records as a reduction of revenue when the prior purchase revenue is initially recognized. Unredeemed incentives are recorded in other current liabilities in the consolidated balance sheets. The Group estimates liabilities under the customer loyalty program based on accumulated customer incentives, and the estimate of probability of redemption in accordance with the historical redemption pattern. The actual expenditure may differ from the estimated liability recorded. As of December 31, 2017 and 2018, liabilities recorded related to membership points and cash rewards were RMB2,142 and RMB1,395, respectively.

Business and related taxes, and value-added tax

The Group was mainly subject to business and related taxes on services provided in the PRC at applicable rates before May 1, 2016, which were deducted from revenues to arrive at net revenue. On May 1, 2016, the transition from the imposition of PRC business tax to the imposition of value-added tax (“VAT”) was expanded to all industries in China. The Group’s business has been subject to VAT since that date, and the Group is permitted to offset input VAT (VAT that is paid in the acquisition of goods or services, and which is supported by valid VAT invoices received from vendors) against their VAT liability. VAT on the invoiced amount collected by the Group on behalf of tax authorities in respect of services provided, net of VAT paid for purchases, is recorded as a liability until it is paid to the tax authorities. The Group is also subject to certain government surcharges on VAT payable in the PRC and these surcharges are recorded in cost of revenues.

2. Principal Accounting Policies - continued

(t) Cost of Revenues

Cost of revenues mainly consists of salaries and other compensation-related expenses related to the Group's tour advisors, customer services representatives, and other personnel related to tour transactions, and other expenses directly attributable to the Group's principal operations, primarily including payment processing fees, telecommunication expenses, rental expenses, depreciation expenses, interest expenses for yield enhancement products, and other service fee for financial service. For the arrangements where the Group secures availabilities of tours and bears substantive inventory risks, and for the self-operated local tour operators since 2018 and the organized tours prior to the beginning of 2017 in which the Group act as a principal, from which revenues are recognized on a gross basis, cost of revenues also includes the amount paid to tour operators or suppliers.

Losses arising from the committed tour reservations in above mentioned arrangements where the Group secures availabilities of tours were recorded in "cost of revenues" in the consolidated statements of comprehensive loss, which were RMB45,494 for the year ended December 31, 2016. Commencing in 2017, since the Group changed its role from principal to agent in the organized tour arrangements and revenues were recognized on a net basis, losses arising from the committed tour reservations were recorded as deductions to revenues, which were RMB11,009 for the year ended December 31, 2017 and were insignificant for the year ended December 31, 2018.

(u) Advertising Expenses

Advertising expenses, which primarily consist of online marketing expense and brand marketing expenses through various forms of media, are recorded in sales and marketing expenses as incurred. Advertising expenses were RMB1,270,598, RMB302,987 and RMB222,073 for the years ended December 31, 2016, 2017 and 2018, respectively.

(v) Research and Product Development Expenses

Research and product development expenses include salaries and other compensation-related expenses to the Group's research and product development personnel, as well as office rental, depreciation and related expenses and travel-related expenses for the Group's research and product development team. The Group recognizes software development costs in accordance with ASC 350-40 *"Software—internal use software"* . The Group expenses all costs that are incurred in connection with the planning and implementation phases of development, and costs that are associated with maintenance of the existing websites or software for internal use. Certain costs associated with developing internal-use software are capitalized when such costs are incurred within the application development stage of software development (see Note 2(m)).

2. Principal Accounting Policies - continued

(w) Leases

A lease for which substantially all the benefits and risks incidental to ownership remain with the lessor is classified as an operating lease. All leases of the Group are currently classified as operating leases. When a lease contains rent holidays or requires fixed escalations of the minimum lease payments, the Group records the total rental expense on a straight-line basis over the lease term and the difference between the straight-line rental expense and cash payment under the lease is recorded as deferred rent liabilities. As of December 31, 2017 and 2018, deferred rent of RMB10,332 and RMB5,412 was recorded as current liabilities and RMB9,548 and RMB5,304 was recorded as non-current liabilities, respectively.

(x) Share-based Compensation

The Company applies ASC 718, *"Compensation — Stock Compensation"* to account for its share-based compensation program including share options and restricted shares. In accordance with the guidance, the Company determines whether a share-based award should be classified and accounted for as a liability award or equity award. All grants of share-based awards to employees classified as equity awards are recognized in the financial statements based on their grant date fair values. For options, the fair values are calculated using the binominal option pricing model. Share-based compensation expenses are recorded net of an estimated forfeiture rate over the service period using the straight-line method. The modifications of the terms or conditions of the shared-based award are treated as an exchange of the original award for a new award. The incremental compensation expense is equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification. For options already vested as of the modification date, the Company immediately recognized the incremental value as compensation expenses. For options still unvested as of the modification date, the incremental compensation expenses are recognized over the remaining service period of these options.

The Company's 2008 Incentive Compensation Plan allows the plan administrator to grant options and restricted shares to the Company's employees, directors, and consultants. The plan administrator is the Company's board of directors or a committee appointed and determined by the board. The board may also authorize one or more officers of the Company to grant awards under the plan. Under the 2008 Incentive Compensation Plan, options granted to employees vest upon satisfaction of a service condition, which is generally satisfied over four years. Additionally, the incentive plan provides an exercisability clause where employees can only exercise vested options upon the occurrence of the following events: (i) after the Company's ordinary shares has become a listed security, (ii) in connection with or after a triggering event (defined as a sale, transfer, or disposition of all or substantially all of the Company's assets, or a merger, consolidation, or other business combination transaction), or (iii) if the employee obtains all necessary governmental approvals and consents required. Options for which the service condition has been satisfied are forfeited should employment terminate three months prior to the occurrence of an exercisable event, which substantially creates a performance condition. This performance condition was met upon completion of the Company's initial public offering, and the associated share-based compensation expense for awards vested as of that date were recognized on May 9, 2014.

(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(x) Share-based Compensation - continued

In April 2014, the Company adopted the 2014 Share Incentive Plan, which contains no such exercisability clause. For details of the 2014 Share Incentive Plan, please refer to Note 17 of the consolidated financial statements.

The Group recognized share-based compensation expense of RMB92,419, RMB98,675 and RMB68,738 for the years ended December 31, 2016, 2017 and 2018, respectively, which was classified as follows:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Cost of revenue	891	1,075	1,483	216
Research and product development	5,702	6,864	9,124	1,327
Sales and marketing	1,390	1,650	1,305	190
General and administrative	84,436	89,086	56,826	8,265
Total	92,419	98,675	68,738	9,998

(y) Income Taxes

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are provided using the liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in the interim condensed consolidated statements of comprehensive loss in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Uncertain tax positions

U.S. GAAP prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides for the derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group’s uncertain tax positions and determining its provision for income taxes. As of December 31, 2017 and 2018, the Group did not have any significant unrecognized uncertain tax positions or any interest or penalties associated with tax positions.

In order to assess uncertain tax positions, the Group applies a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

2. Principal Accounting Policies - continued

(z) Employee Benefits

Full-time employees of the Group in the PRC are entitled to welfare benefits including pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund plans through a PRC government-mandated defined contribution plan. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions. The Group recorded employee benefit expenses of RMB256,801, RMB263,618 and RMB222,304 for the years ended December 31, 2016, 2017 and 2018, respectively.

(aa) Government Subsidies

Government subsidies are cash subsidies received by the Group's entities in the PRC from provincial and local government authorities. The government subsidies are granted from time to time at the discretion of the relevant government authorities. These subsidies are granted for general corporate purposes and to support the Group's ongoing operations in the region. Cash subsidies are recorded in other operating income on the consolidated statements of comprehensive loss when received and when all conditions for their receipt have been satisfied. The Group recognized government subsidies of RMB21,098, RMB27,322 and RMB51,357 for the years ended December 31, 2016, 2017 and 2018, respectively.

(ab) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Accretion of the redeemable noncontrolling interests is deducted from the net income (loss) to arrive at net income (loss) attributable to the Company's ordinary shareholders. Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of unvested restricted shares and shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted loss per share calculation when inclusion of such shares would be anti-dilutive. Except for voting rights, Class A and Class B shares have all the same rights and therefore the Group has elected not to use the two-class method.

(ac) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Comprehensive income or loss is reported in the consolidated statements of comprehensive loss. Accumulated other comprehensive income (loss), as presented on the accompanying consolidated balance sheets, consists of accumulated foreign currency translation adjustments.

2. Principal Accounting Policies - continued

(ad) Treasury stock

On August 23, 2016, the Company's board of directors authorized a share repurchase program under which the Company may repurchase up to US$150 million worth of its ADS over the next 12 months. On January 12, 2018, the Company's board of directors authorized an additional share repurchase program under which the Company was authorized to repurchase up to US$100 million worth of the Company's ordinary shares or American depositary shares representing ordinary shares over the next 12 months. The share repurchase programs permitted the Company to purchase shares from time to time on the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. The repurchased shares were accounted for under the cost method and presented as "treasury stock" in equity on the Group's consolidated balance sheets. For the year ended December 31, 2018, the Group reissued 564,663 shares to employees upon their exercise of share options or vesting of restricted share units under the Group's share compensation plans. The Company recognizes the difference in additional paid-in capital on the reissuance of the shares when reissuing treasury stock at an amount different from the average cost the Company paid to repurchase the treasury stock.

(ae) Segment Reporting

In accordance with ASC 280, Segment Reporting, the Group's chief operating decision maker, the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment.

The Group does not distinguish between markets or segments for the purpose of internal reporting. The Group's long-lived assets are substantially all located in the PRC and substantially all the Group's revenues are derived from within the PRC, therefore, no geographical segments are presented.

(af) Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. Subsequently, the FASB issued several amendments which amends certain aspects of the guidance in ASC 2014-09 (ASU No. 2014-09 and the related amendments are collectively referred to as "ASC 606"). The Group adopted this new revenue standard effective from January 1, 2017 by applying the full retrospective method. The new revenue standard has mainly changed the timing of revenue recognition. Under ASC 606, for 2016, instead of recognizing revenue at the end of the organized tours and self-guided tours in accordance with ASC 605, revenues from organized tours are now recognized over the period of the tours and revenues from self-guided tours are recognized on the departure day. In addition, the new revenue standard also changes the presentation of customer incentives. Under ASC 606, the estimated amount associated with the future obligation to customers is now recorded as a reduction of revenue instead of within sales and marketing expenses under incremental cost model in accordance ASC 605. Following the adoption of ASC 606, the revenue recognition for others services remained materially consistent with the historical practice. See Note 2(s) for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(af) Recently Issued Accounting Pronouncements **- continued**

The following table presents the full retrospective impact of the above-described changes upon adoption of ASC 606 on the Group's consolidated statements of operations for the year ended December 31, 2016:

	For the Year Ended December 31, 2016		
	As Reported RMB	Adoption of ASC 606 RMB	As Adjusted RMB
Packaged tours	10,179,977	(32,829)	10,147,148
Others	385,603	15,497	401,100
Total revenues	10,565,580	(17,332)	10,548,248
Net revenues	10,548,273	(17,332)	10,530,941
Cost of revenues	(9,921,304)	29,568	(9,891,736)
Gross profit	626,969	12,236	639,205
Sales and marketing	(1,908,424)	8,027	(1,900,397)
Total operating expenses	(3,146,293)	8,027	(3,138,266)
Loss from operations	(2,519,324)	20,263	(2,499,061)
Loss before income tax expense	(2,444,306)	20,263	(2,424,043)
Net loss	(2,442,595)	20,263	(2,422,332)
Net loss attributable to noncontrolling interests	(15,470)	366	(15,104)
Net loss attributable to Tuniu Corporation	(2,427,091)	19,897	(2,407,194)
Net loss attributable to ordinary shareholders	(2,427,197)	19,897	(2,407,300)
Net loss	(2,442,595)	20,263	(2,422,332)
Comprehensive loss	(2,208,695)	20,263	(2,188,432)
Comprehensive loss attributable to noncontrolling interests	(15,470)	366	(15,104)
Comprehensive loss attributable to Tuniu Corporation	(2,193,191)	19,897	(2,173,294)
Net loss per share-basic and diluted	(6.50)	0.05	(6.45)

The following table presents the full retrospective impact of the above-described changes upon adoption of ASC 606 on the Group's consolidated statements of cash flows for the year ended December 31, 2016:

	For the Year Ended December 31, 2016		
	As Reported RMB	Adoption of ASC 606 RMB	As Adjusted RMB
Cash flows from operating activities:			
Net loss	(2,442,595)	20,263	(2,422,332)
Changes in operating assets and liabilities:			
Accounts receivable	(76,810)	(15,337)	(92,147)
Accounts payable	78,768	55,041	133,809
Advances from customers	728,534	(59,967)	668,567

2. Principal Accounting Policies - continued

(af) Recently Issued Accounting Pronouncements — continued

In January 2016, the FASB issued ASU 2016-01, " *Financial Instruments — Overall (Subtopic 825-10) — Recognition and Measurement of Financial Assets and Financial Liabilities"*. ASU 2016-01 changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The guidance also changes certain disclosure requirements and other aspects of previous U.S. GAAP. ASU 2016-01 is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Effective from January 1, 2018, the Group adopted the new guidance related to accounting for equity investments and financial liabilities under the fair value option. Upon adoption of the ASU 2016-01, the Group elected a measurement alternative for equity investments that do not have readily determinable fair values and where the Group does not have the ability to exercise significant influence over operating and financial policies of the entity. Under the measurement alternative, the Group measured these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Before 2018, such investments were classified as cost method investments and were measured at cost, subject to impairment assessment. See Note 7 for details.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)"("ASU 2016-02"), which requires lessees to recognize assets and liabilities for all leases with lease terms of more than 12 months on the balance sheet. Under the new guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. The ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. The ASU initially required a modified retrospective transition approach for existing leases, whereby the new leases standard will be applied to the earliest year presented. In July 2018, the FASB issued ASU 2018-11, which provides another transition method, the additional transition method, in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Group will adopt this new guidance by using the additional transition method for the year ended December 31, 2019 and interim periods in the year ended December 31, 2019. The Group has inventoried its leases and continues to review its other contractual arrangements to identify any implied leases. The Group currently believes that there will be no material impact on operating results or cash flows, and that the most significant effects of adoption will be the recognition of new right-of-use assets and lease liabilities on the Group's balance sheet for its various office facility operating leases. A cumulative-effect adjustment (the amount of which has not yet been determined) will be recognized to the opening balance of retained earnings in the period of adoption with prior period financial information not been adjusted.

In June 2016, the FASB issued ASU No. 2016-13 (ASU 2016-13), *"Financial Instruments — Credit Losses"* , which introduces new guidance for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including, but not limited to, trade and other receivables, held-to-maturity debt securities, loans and net investments in leases. The new guidance also modifies the impairment model for available-for-sale debt securities and requires the entities to determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. The standard also indicates that entities may not use the length of time a security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. The ASU 2016-13 is effective for public companies for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Group is in the process of evaluating the impact of adopting this guidance.

In August 2016, the FASB issued ASU No. 2016-15, *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)" ("ASU 2016-15")* , which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted. The adoption of this new guidance did not have a material impact on the consolidated financial statements for 2018.

In November 2016, the FASB issued ASU No. 2016-18, *"Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2016-18")* , which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU 2016-18 is effective for annual and interim periods beginning after December 15, 2017 and effective from January 1, 2018, the Group adopted the new guidance and retrospectively adjusted the prior periods presented in the consolidated statement of cash flows. The changes in restricted cash in the consolidated cash flows were RMB214,436 and RMB32,752 for the years ended December 31, 2016 and 2017, respectively, which were no longer presented within investing activities and were retrospectively included in the changes of cash, cash equivalents and restricted cash as required. As of December 31, 2018, total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows include cash and cash equivalents of RMB560,356 and restricted cash of RMB270,670 within the consolidated balance sheets.

In January 2017, the FASB issued ASU 2017-01 (ASU 2017-01), *"Business Combinations (Topic 805): Clarifying the Definition of a Business"*, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. As of January 1, 2018, the Group prospectively adopted the ASU. Upon adoption, the standard impacts how the Group assess future acquisitions (or disposals) of assets or businesses. The adoption of this new guidance did not have a material impact on the consolidated financial statements for 2018.

2. Principal Accounting Policies - continued

(af) Recently Issued Accounting Pronouncements - continued

In January 2017, the FASB issued ASU No. 2017-04, *"Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"*), which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group is in the process of evaluating the impact of adopting this guidance.

In May 2017, the FASB issued ASU 2017-09, " *Compensation - Stock Compensation (Topic 718)"* that provides additional guidance around which changes to a share-based payment award requires an entity to apply modification accounting. Specifically, an entity is to account for the effects of a modification, unless all of the following are satisfied: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or as a liability instrument is the same as the classification of the original award immediately before the original award is modified. For public entities, the update is effective beginning after December 15, 2017. Early adoption is permitted. Effective from January 1, 2018, the Group adopted the new guidance, which did not have a material impact on the consolidated financial statements for 2018.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13") which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company does not expect a significant impact on its consolidated financial statements.

3. Risks and Concentration

(a) Credit and Concentration Risks

The Group's credit risk arises from cash and cash equivalents, restricted cash, short-term investments, prepayments and other current assets, accounts receivables, yield enhancement products and other long-term investments. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates.

The Group expects that there is no significant credit risk associated with the cash and cash equivalents, short-term investments and other long-term investments which are held by reputable financial institutions in the jurisdictions where the Company, its subsidiaries and the Affiliated Entities are located. The Group believes that it is not exposed to unusual risks as these financial institutions have high credit quality.

The Group has no significant concentrations of credit risk with respect to its customers, as customers usually prepay for travel services. Accounts receivable are typically unsecured and are primarily derived from revenue earned from corporate customers, travel agents, insurance companies and travel boards or bureaus. The risk with respect to accounts receivable is mitigated by credit evaluations performed on the corporate customers, travel agents and insurance companies and ongoing monitoring processes on outstanding balances. No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2016, 2017 and 2018.

3. Risks and Concentration - continued

(a) Credit and Concentration Risks *-* ***continued***

The Group has purchased securities and financial products issued by banks, Alipay, companies and other financial institutions. The Group has set up a risk evaluation system on the issuers of credit quality, ultimate borrowers of asset management schemes, and conducts collectability assessment of the financial assets on timely basis. As of December 31, 2018, the Group believes the securities and financial assets are financially sound based on publicly available information and management's assessment does not foresee substantial credit risk with respect to these securities and financial products.

(b) Foreign Currency Risk

The Group's operating transactions and its assets and liabilities are mainly denominated in RMB. RMB is not freely convertible into foreign currencies. The value of RMB is subject to changes influenced by central government policies, and international economic and political developments. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

(All amounts in thousands, except for share and per share data, or otherwise noted)

4. Business acquisition

Travel agencies

During the year ended December 31, 2018, the Group acquired 80% of equity interests of an online travel agency to expand Tuniu's overseas business network and further enhance the Company's competitive position. The total purchase price of RMB20,234 including cash consideration of RMB9,852 and an accrual in the amount of RMB10,382 representing the fair value of contingent consideration to be made based on the achievement of profit target over the next four years. The fair value of the contingent cash consideration was estimated using a probability-weighted scenario analysis method. Key assumption included probabilities assigned to each scenario and a discount rate. During the year ended December 31, 2018, the Group paid RMB9,852 cash consideration. The contingent consideration is due in increments annually over the next four years.

The business acquisition was accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

	Amount	Estimated useful lives
Net assets (including cash acquired of RMB6.4million)	5,239	
Technology	4,300	9.4years
Goodwill	11,770	
Deferred tax liability	(1,075)	
Total consideration	20,234	

During the year ended December 31, 2016, the Group acquired 100% of equity interests of an offline travel agency to further expand the Group's overseas tourism market and promote the Group's destination service. The total purchase price of RMB28,077, including cash consideration of RMB16,507 and an accrual in the amount of RMB11,570 representing the fair value of contingent consideration to be made based on the achievement of certain revenue and profit target over the next four years. The fair value of the contingent cash consideration was estimated using a probability-weighted scenario analysis method. Key assumption included probabilities assigned to each scenario and a discount rate. During the year ended December 31, 2016, the Group paid RMB16,507 of the cash consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB680. During the year ended December 31, 2017, the Group paid RMB3,600 of the contingent cash consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB1,030. During the year ended December 31, 2018, the Group paid RMB3,600 of the contingent cash consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB730. As of December 31, 2018, the carrying value of total unpaid contingent consideration was RMB6,810, which is expected to be paid in increments annually over the next two years.

The business acquisition was accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

	Amount	Estimated useful lives
Net assets (including cash acquired of RMB8.3 million)	12,907	
Trade names	2,464	9.5years
Non-compete agreement	3,676	6 years
Goodwill	10,565	
Deferred tax liability	(1,535)	
Total consideration	28,077	

During the year ended December 31, 2015, the Group acquired the 90%, 100%, 75.02% and 80% of equity interests in four offline travel agencies, respectively. The Group expanded its tours market and improved its capability of direct procurement of travel related products by means of these acquisitions. The total purchase price of RMB115,498 included cash consideration of RMB100,163 and RMB15,335 representing the fair value of contingent consideration to be made based on the achievement of certain revenue and profit target over the next three to four years. During the year ended December 31, 2016, the Group paid RMB7,973 of the cash consideration, and made an downward adjustment of the fair value of the contingent consideration by RMB1,905. During the year ended December 31, 2017, the Group paid RMB3,200 of the cash consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB4,542. During the year ended December 31, 2018, the Group paid RMB3,200 of the cash consideration, and made an downward adjustment of the fair value of the contingent consideration by RMB5,972. As of December 31, 2018, the total unpaid contingent consideration was RMB19,264, which is expected to be paid in increments annually over the next one to two years.

The business acquisitions were accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

(All amounts in thousands, except for share and per share data, or otherwise noted)

4. Business acquisition - continued

Travel agencies - continued

	Amount	Estimated useful lives
Net liabilities (including the cash acquired of RMB24 million)	(59,923)	
Travel licenses	25,100	20 years
Customer relationship	13,458	14.25-14.5 years
Trade names	39,170	7-14 years
Software	3,013	5 years
Non-compete agreement	1,683	3.5-5.25 years
Goodwill	133,324	
Deferred tax liability	(20,606)	
Noncontrolling interest	(19,721)	
Total considerations	115,498	

The Group measured the fair value of the trade names and travel licenses under the relief-from-royalty method. Under the methodology, fair value is calculated as the discounted cash flow savings accruing to the owner for not having to pay the royalty. Key assumptions included expected revenue attributable to the assets, royalty rates, discount rate and estimated asset lives. Customer relationships and technology were valued using the excess-earnings method, which measures the present value of the projected cash flows that are expected to be generated by the existing intangible asset after deduction of cash flows attributable to other contributory assets to realize the projected earnings attributable to the intangible asset. Key assumptions included discounted cash flow analyses, for other contributory assets, discount rate, remaining useful life, income tax amortization benefit and customer attrition rates. The Group measured the fair value of non-compete agreements based on incremental discounted cash flow analyses computed with and without the non-compete terms as described in share purchase agreement and the probability that such competition exists. The Group measured the fair value of the software under the replacement cost method.

Pro forma results of operations for all of the acquisitions described above have not been presented because they are not material to the consolidated income statements, either individually or in aggregate.

(All amounts in thousands, except for share and per share data, or otherwise noted)

5. Transaction with JD.com, Inc.

On May 8, 2015, the Company entered into a share subscription agreement with Fabulous Jade Global Limited, an affiliate of JD.com, Inc., and a Business Cooperation Agreement ("BCA") with JD. Com, Inc. ("JD") for a period of five years. Pursuant to these agreements, the Company issued 65,625,000 Class A ordinary shares for a cash consideration of RMB1,528.2 million (US$250 million) and the business resource contributed by JD. According to BCA, the business resource includes the exclusive rights to operate the leisure travel channel for both JD's website and mobile application and JD's preferred partnership for hotel and air ticket reservation service, the internet traffic support and marketing support for the leisure travel channel for a period of five years started from August 2015.

The acquisition of BCA is considered as assets acquisition and the intangible assets acquired include the exclusive operation right of leisure travel channel, preferred partnership of hotel and air ticket reservation service, traffic and marketing supports. The Group estimated the fair value of exclusive operation right and preferred partnership using a form of the income approach known as excess earning method. The key assumption includes expected revenue attributable to assets, margin discount rate and the remaining useful life. The Group estimated the fair value of internet traffic support and marketing support using a form of income approach known as operating cost saving method. Key assumption includes the market price of the services to be provided, the volume of the services to be provided, discount rate and the remaining useful life. The Group made estimates and judgments in determining the fair value of the assets with assistance from an independent valuation firm.

The summary of the fair value of acquired intangible assets is as follows:

	Amount	Estimated useful lives
Exclusive operation right of leisure travel channel	405,406	5 years
Preferred partnership of hotel and air ticket reservation service	1,431	5 years
Internet traffic support	139,358	5 years
Marketing support	114,020	5 years
Total consideration	660,215	

6. Prepayments and other current assets

The following is a summary of prepayments and other current assets:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Prepayments to suppliers	680,723	716,761	104,249
Interest income receivable	42,234	11,984	1,743
Prepayment for advertising expenses	7,950	9,536	1,387
Receivables in relation to factoring business	81,940	324,577	47,208
Loan receivables	34,284	454,953	66,170
Others	92,332	155,773	22,656
Total	939,463	1,673,584	243,413

Receivable in relation to factoring business and loan receivable are recorded in connection with the Group's account receivable factoring service and cash lending service.

The Group recognized a provision for other current assets of RMB25,622 and RMB32,476 for the years ended December 31, 2016 and 2017, respectively, and had a net reversal of RMB731 for the year ended December 31, 2018.

The following table summarized the details of the Group's provision for other current assets:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Balance at beginning of year	—	25,622	30,632	4,455
Addition	25,622	32,476	6,009	874
Reversal	—	—	(6,740)	(980)
Transfer-out	—	(27,466)	—	—
Write-offs	—	—	—	—
Balance at end of period	25,622	30,632	29,901	4,349

(All amounts in thousands, except for share and per share data, or otherwise noted)

7. Long-term investments

The Group's long-term investments consist of equity investments, held-to-maturity investments and other long-term investments.

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Equity investments — equity method	42,500	42,500	6,181
Equity investments — measurement alternative	—	165,253	24,035
Equity investments — cost method	47,568	—	—
Held-to-maturity investments	—	197,469	28,721
Other long-term investments	394,923	897,284	130,505
Total	484,991	1,302,506	189,442

Equity investments

In December 2016, Nanjing Zhongshan Financial Leasing Co., Ltd. ("Zhongshan") was established and the Group invested RMB42.5 million for 25% of equity interest in Zhongshan. This investment was accounted for as an equity-method investment due to the significant influence the Group has over the operating and financial policies of Zhongshan as the Group has one of the five board seats of Zhongshan. Operating results of Zhongshan were not material in any of the years ended December 31, 2016, 2017 and 2018.

With the adoption of ASU 2016-01, the Group elected a measurement alternative for equity investments that do not have readily determinable fair values and where the Group does not have the ability to exercise significant influence over operating and financial policies of the entity. During the year ended December 31, 2018, the Group remeasured certain equity investments based on the information obtained from observable transactions and recognized gains of RMB12,581 including RMB8,700 for one equity investment, which was recognized on January 1, 2018, the adoption date of this ASU. In addition, the Group made several equity investments of this kind with the total cost of RMB106,368 and disposed one equity investment of RMB1,264 in 2018. The carrying value of these equity investments using measurement alternative was RMB165,253 as of December 31, 2018. Before 2018, cost method was used for these investments with carrying value of RMB47,568 as of December 31, 2017.

Held-to-maturity investments

During 2018, the Group made investments in several corporate bonds issued by listed public companies and time deposits with maturities over one year. The Group has intention and ability to hold these corporate bonds till maturity. The Group measured these held-to-maturity investments at amortized cost and the carrying value of such investments was RMB197,469 as of December 31, 2018.

Other long-term investments

The Group also made several investments in financial products with maturities over one year and securities including perpetual bonds and preferred shares issued by companies. The Group measured other these long-term investments at the fair value and the carrying value was RMB394,923 and RMB897,284 as of December 31, 2017 and 2018 respectively.

No impairment loss was recognized for long-term investments for the years ended December 31, 2016, 2017 and 2018.

(All amounts in thousands, except for share and per share data, or otherwise noted)

8. Property and equipment, net

The following is a summary of property and equipment, net:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Computers and equipment	151,407	149,634	21,763
Leasehold improvements	87,750	106,871	15,544
Buildings	5,495	5,547	807
Furniture and fixtures	17,479	18,334	2,667
Vehicles	1,120	6,744	981
Software	51,911	127,354	18,523
Subtotal	315,162	414,484	60,285
Less: Accumulated depreciation	(177,854)	(241,030)	(35,056)
Property and equipment subject to depreciation	137,308	173,454	25,229
Construction in progress	10,970	13,906	2,021
Total	148,278	187,360	27,250

Depreciation expense for the years ended December 31, 2016, 2017 and 2018 was RMB66,510, RMB65,704 and RMB67,077, respectively.

9. Intangible assets, net

Intangible assets, net, consist of the following:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Travel license	30,590	30,956	4,502
Insurance agency license	11,711	11,711	1,703
Software	52,515	58,187	8,463
Technology	—	4,300	625
Trade names	41,634	41,634	6,055
Business Cooperation Agreements	660,215	660,215	96,025
Customer relationship	13,458	13,458	1,957
Non-compete agreements	6,399	6,399	931
Subtotal	816,522	826,860	120,261
Less: Accumulated amortization	(355,888)	(508,975)	(74,027)
Total	460,634	317,885	46,234

During 2015, the Group acquired an insurance agency for the total consideration of RMB58,720 to acquire the insurance agency license. The insurance agency was a dormant company and was not qualified as a business as it had no input or process to create output. The Group accounted for this transaction as an asset acquisition and the difference between the cash consideration and net assets of the insurance agency was recorded as an insurance agency license which is amortized over 20 years on a straight line basis.

(All amounts in thousands, except for share and per share data, or otherwise noted)

9. Intangible assets, net - continued

Amortization expenses for intangible assets were RMB145,063, RMB150,092 and RMB153,087 for the years ended December 31, 2016, 2017 and 2018.

The annual estimated amortization expense for the above intangible assets for the following years is as follows:

Years Ending December 31,	Amortization for Intangible Assets RMB	US$ (Note 2(d))
2019	149,449	21,737
2020	96,025	13,966
2021	14,310	2,081
2022	8,630	1,255
2023	6,652	967
Thereafter	42,819	6,228
Total	317,885	46,234

10. Land use right, net

Land use right, net, consist of the following:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Land use right	—	101,007	14,691
Less: Accumulated amortization	—	(171)	(25)
Net book value	—	100,836	14,666

In December 2018, the Group obtained the certificate for a land use right and started to amortize over the remaining lease period. Amortization expense for land use right was RMB171 for the year ended December 31, 2018.

11. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2018 were as follows:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Balance at the beginning of year	147,639	147,639	21,473
Increase in goodwill related to acquisitions during the year	—	11,770	1,712
Accumulated impairment loss	—	—	—
Balance at the end of year	147,639	159,409	23,185

12. Other non-current assets

Other non-current assets consist of the following:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Prepayment for land use right (note 10)	101,007	—	—
Deposits	26,324	43,510	6,328
Loans receivables	20,694	31,501	4,582
Others	8,430	6,028	877
Balance at the end of year	156,455	81,039	11,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

13. Accrued expenses and other current liabilities

The following is a summary of accrued expenses and other current liabilities:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Deposits from packaged-tour users	63,499	35,119	5,108
Payable for business acquisition	26,925	25,722	3,741
Accrued liabilities related to customers incentive program	2,142	1,395	203
Accrued professional service fees	9,878	8,028	1,168
Accrued advertising expenses	74,548	63,531	9,240
Deposits received from suppliers	70,212	90,853	13,214
Accrued operating expenses	54,834	32,391	4,711
Advanced payment from banks	18,748	15,567	2,264
Discounted bank acceptance notes	—	142,000	20,653
Short-term borrowings	—	49,312	7,172
Others	52,904	69,226	10,070
Total	373,690	533,144	77,544

Deposits from packaged-tour users represent cash paid to the Group as a deposit for overseas tours, and such amount is refundable upon completion of the tours.

Advanced payment from banks represent cash received by the Group for promotional and marketing campaigns. Banks participating in these campaigns would reimburse the Group for tours sold to their credit card holders at a specified discount. Such advanced payment is recognized as revenues when revenues from the related tour are recognized.

Discounted bank acceptance notes represent cash received from financial institutions by discounting of bank acceptance notes, which are repayable within one year with interest ranging from 3.7% to 5.8%.

Short-term borrowings represent loans from banks, which are repayable within one year with interest ranging from 5.7% to 7.5%.

14. Income Taxes

The Company is registered in the Cayman Islands. The Company generates substantially all of its income (loss) from its PRC operations for the years ended December 31, 2016, 2017 and 2018.

Cayman Islands (“Cayman”)

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. Additionally, upon payments of dividends to shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% since January 1, 2010. The operations in Hong Kong have incurred net accumulated operating losses for income tax purposes.

PRC

On March 16, 2007, the National People’s Congress of the PRC enacted an Enterprise Income Tax Law (“EIT Law”), under which Foreign Investment Enterprises (“FIEs”) and domestic companies are subject to EIT at a uniform rate of 25%. The EIT law became effective on January 1, 2008.

(All amounts in thousands, except for share and per share data, or otherwise noted)

14. Income Taxes — continued

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The implementing Rules of the EIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located.”

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by a FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% if the immediate holding company in Hong Kong owns directly at least 25% of the shares of the FIE and could be recognized as a Beneficial Owner of the dividend from PRC tax perspective.

Nanjing Tuniu obtained in 2010 its HNTE certificate with a valid period of three years and successfully renewed such certificate in December 2013 and December 2016 for additional three years, respectively. Therefore, Nanjing Tuniu was eligible to enjoy a preferential tax rate of 15% from 2016 to 2018 to the extent it has taxable income under the EIT Law, as long as it maintains the HNTE qualification and duly conducts relevant EIT filing procedures with the relevant tax authority. Nanjing Tuniu expects to obtain an updated HNTE in December 2019 certificate under which it will be eligible to enjoy a preferential tax rate of 15% from 2019 to 2021 to the extent it has taxable income under the EIT Law, as long as it maintains the HNTE qualification and duly conducts relevant EIT filing procedures with the relevant tax authority. Tuniu (Nanjing) Information Technology Co., Ltd also obtained HNTE certificate in 2017 and is eligible to enjoy a preferential tax rate of 15% from 2017 to 2019 to the extent it has taxable income under the EIT Law, as long as it maintains the HNTE qualification and duly conducts relevant EIT filing procedures with the relevant tax authority. Besides, Beijing Tuniu expects to obtain the HNTE certificate in 2019 under which it will be eligible to enjoy a preferential tax rate of 15% from 2019 to 2021 to the extent it has taxable income under the EIT Law, as long as it maintains the HNTE qualification and duly conducts relevant EIT filing procedures with the relevant tax authority. Nanjing Tuniu also obtained a software company certificate in 2012. Pursuant to such certificate, Nanjing Tuniu qualifies for a tax holiday during which it is entitled to an exemption from enterprise income tax for two years commencing from its first profit-making year of operation and a 50% reduction of enterprise income tax for the following three years. Nanjing Tuniu entered into the first tax profitable year for the year ended December 31, 2014.

A reconciliation between the effective income tax rate and the PRC statutory income tax rate is as follows:

	For Years Ended December 31,		
	2016	2017	2018
	%	%	%
PRC Statutory income tax rates	25.0	25.0	25.0
Change in valuation allowance	(23.2)	(17.3)	(50.9)
Permanent book — tax difference	1.0	(4.0)	19.4
Difference in EIT rates of certain subsidiaries	(2.0)	(5.8)	(0.1)
Effect of tax holiday	(0.7)	—	6.5
Total	0.1	(2.1)	(0.1)

The aggregate amount and per share effect of the tax holidays are as follows:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Aggregate amount	—	—	12,877	1,873
Basic net loss per share effect	—	—	—	—
Diluted net loss per share effect	—	—	—	—

(All amounts in thousands, except for share and per share data, or otherwise noted)

14. Income Taxes - continued

The following table sets forth the significant components of deferred tax assets and liabilities:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Non-current deferred tax assets:			
Accruals and others	13,828	4,468	650
Net operating loss carry forwards	1,164,433	1,180,159	171,647
Carryforwards of deductible advertising expenses	9,159	9,842	1,431
Allowance for doubtful accounts	11,452	12,957	1,885
Subtotal	1,198,872	1,207,426	175,613
Less: valuation allowance	(1,198,872)	(1,207,426)	(175,613)
Total non-current deferred tax assets, net	—	—	—
Non-current deferred tax liabilities:			
Recognition of intangible assets arising from business combination	(21,142)	(19,855)	(2,888)
Total non-current deferred tax assets, net	(21,142)	(19,855)	(2,888)

As of December 31, 2018, the Group had net operating loss carryforwards of RMB1,180,159 which can be carried forward to offset taxable income. The carryforwards period for net operating losses under the EIT Law is five years. The net operating loss carry forward of the Group will start to expire in 2019 for the amount of RMB395,272 if not utilized. The remaining net operating loss carryforwards will expire in varying amounts between 2020 and 2023. Other than the expiration, there are no other limitations or restrictions upon the Group’s ability to use these operating loss carryforwards. There is no expiration for the advertising expenses carryforwards.

A valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group evaluates a variety of factors including the Group’s operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

As of December 31, 2017 and 2018, valuation allowances of RMB1,198,872 and RMB1,207,426 were provided because it was more likely than not that the Group will not be able to utilize certain tax losses carry forwards and other deferred tax assets generated by its subsidiaries and Affiliated Entities. If events occur in the future that allow the Group to realize more of its deferred tax assets than the presently recorded amount, an adjustment to the valuation allowances will increase income when those events occur.

Movement of valuation allowance

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Balance at the beginning of the year	480,905	1,068,082	1,198,872	174,369
Additions	596,944	189,090	128,464	18,684
Written-off for expiration of net operating losses	(9,767)	(16,421)	(10,584)	(1,539)
Utilization of previously unrecognized tax losses and deductible advertising expenses	—	(41,879)	(109,326)	(15,901)
Balance at the end of the year	1,068,082	1,198,872	1,207,426	175,613

(All amounts in thousands, except for share and per share data, or otherwise noted)

15. Redeemable noncontrolling interests

In December 2016, the Group entered into an investment agreement with certain investors ("noncontrolling shareholders") to establish a subsidiary. The noncontrolling shareholders contributed RMB90,000 and held 30% equity interest. Pursuant to the investment agreement, the noncontrolling shareholders have the option to request the Group to redeem their equity interests at an agreed price after three years of the investment. In April 2018, the Group agreed with one of the noncontrolling shareholders to purchase its 10% equity interest of the subsidiary at the cost of RMB30,000.

The Group recorded the noncontrolling interests as redeemable noncontrolling interests, outside of permanent equity in the Group's consolidated balance sheets in accordance with ASC 480. The Group uses the effective interest method for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the noncontrolling interests. The accretion, which increases the carrying value of the redeemable noncontrolling interests, is recorded against additional paid-in capital.

The change in the carrying amount of redeemable noncontrolling interests for the years ended December 31, 2016, 2017 and 2018 is as follows:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Balance as of January 1	—	90,072	96,719	14,067
Contribution from/(Repurchase of) redeemable noncontrolling interests	90,000	—	(30,000)	(4,363)
Net income attributable to redeemable noncontrolling interests	(34)	922	178	26
Accretion on redeemable noncontrolling interests	106	5,725	2,422	352
Balance as of December 31	90,072	96,719	69,319	10,082

16. Ordinary Shares

On February 13, 2014, the Board has approved that all of the Company's existing ordinary shares would be redesignated as Class B ordinary shares and all of the Company's outstanding preferred shares would be redesignated or automatically converted into Class B ordinary shares immediately prior to the completion of the Company's initial public offering ("IPO"). All options, regardless of grant dates, will entitle holders to the equivalent number of Class A ordinary shares once the vesting and exercising conditions on such share-based compensation awards are met. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share on all matters subject to shareholders' vote. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder to any person or entity which is not an affiliate of such holder, such Class B ordinary shares will be automatically and immediately converted into the equivalent number of Class A ordinary shares.

On May 9, 2014, concurrently with the completion of the Company's IPO, the Company issued 5,000,000, 1,666,666 and 5,000,000 shares of Class A ordinary shares at a price per share equal to the IPO price to DCM Hybrid RMB Fund, L.P., the Company's existing shareholder, Qihoo 360 Technology Co. Ltd. and Ctrip Investment Holding Ltd., respectively.

On December 15, 2014, the Company entered into share subscription agreements with Unicorn Riches Limited, JD.com E-commerce (Investment) Hong Kong Corporation Limited, Ctrip Investment Holding Ltd. and the respective personal holding companies of the Group's chief executive officer and chief operating officer, pursuant to which the Company issued 36,812,868 numbers of Class A ordinary shares for a total proceeds of RMB905,792 (US$148 million), net of issuance cost of RMB14,279. The transaction was closed on December 31, 2014.

On May 8, 2015, the Company entered into share subscription agreements with Fabulous Jade Global Limited, Unicorn Riches Limited, Ctrip Investment Holding Ltd., Esta Investments Pte. Ltd., DCM Ventures China Turbo Fund, L.P. and DCM Ventures China Turbo Affiliates Fund, L.P., and Sequoia Capital 2010 CV Holdco, Ltd., pursuant to which the Company issued 93,750,000 Class A ordinary shares for the cash consideration of US$400 million (RMB2,445 million) and certain business resource contributed by JD as part of Business Cooperation Agreement with the Company. The total consideration was RMB3,104,457, including fair value of acquired Business Cooperation Agreement of RMB660,215(see Note 5), net of issuance cost of RMB1,078. The transaction was closed on May 22, 2015.

On November 20, 2015, the Company entered into a share subscription agreement with HNA Tourism Holdings Group Co., Ltd. ("HNA"), pursuant to which the Company issued 90,909,091 Class A ordinary shares for a total proceeds of RMB3,279 million (US$500 million). The transaction was closed on January 21, 2016.

(All amounts in thousands, except for share and per share data, or otherwise noted)

17. Share-based Compensation Expenses

The Company’s 2008 Incentive Compensation Plan (the “2008 Plan”) allows the plan administrator to grant share options and restricted shares to the Company’s employees, directors, and consultants, up to a maximum of 11,500,000 ordinary shares. In December 2012, the Board of Directors approved an increase in the number of shares available for issuance under the plan to 18,375,140 ordinary shares. In April 2014 the Company adopted the 2014 Share Incentive Plan (the “2014 Plan”). The maximum aggregate number of shares which may be issued pursuant to all awards under the 2014 Plan was initially 5,500,000 ordinary shares as of the date of its approval. The number of shares reserved for future issuances under the 2014 Plan will be increased automatically if and whenever the ordinary shares reserved under the 2014 Plan account for less than1% of the total then-issued and outstanding ordinary shares on an as-converted basis, as a result of which increase the ordinary shares reserved under the 2014 Plan immediately after each such increase shall equal 5% of the then-issued and outstanding ordinary shares on an as-converted basis. In December 2016, the Board of Directors approved an increase in the number of shares available for issuance under the 2014 Plan to 7,942,675 ordinary shares.

The share options and restricted shares granted under the 2008 plan initially have a contractual term of six years, and grants under the 2014 plan have a contractual term of ten years. The incentive awards under both 2008 plan and 2014 plan generally vest over a period of four years of continuous service, one fourth (1/4) of which vest upon the first anniversary of the stated vesting commencement date and the remaining vest ratably over the following 36 months. Under the 2008 plan, incentive awards are only exercisable upon occurrence of certain defined exercisable events. The Group did not recognize any share-based compensation expense for the awards granted until the completion of the Company’s IPO on May 9, 2014 upon which the performance condition was satisfied. As of December 31, 2018, 20,507,371 options and 223,399 restricted shares were outstanding under the 2008 and 2014 plan.

Share-based compensation expense of RMB92,419, RMB98,675 and RMB68,738 were recognized for the years ended December 31, 2016, 2017 and 2018, respectively.

Share options

The following table summarizes the Company’s option activities:

	Number of share options	Weighted Average Exercise Price US$	Weighted Average Remaining Contractual Life In Years	Aggregate Intrinsic Value US$’000
Outstanding at January 1, 2018	17,164,617	2.01	6.36	13,340
Granted	7,704,003	1.67		
Exercised	(886,812)	0.75		
Forfeited	(3,474,437)	2.54		
Outstanding at December 31, 2018	20,507,371	1.81	6.77	6,879
Vested and expected to vest at December 31, 2018	19,619,273	1.81	6.68	6,856
Exercisable at December 31, 2018	10,496,642	1.74	4.72	6,615

17. Share-based Compensation Expenses - continued

On March 4, 2016, the Company modified the exercise price of 14,478,293 share options granted under 2014 Plan to US$3.09. The incremental compensation expense of RMB23,197 (US$3,341) was equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification. For options already vested as of the modification date, the Company immediately recognized the incremental value as compensation expenses. For options still unvested as of the modification date, the incremental compensation expenses are recognized over the remaining service period of these options.

On May 31, 2016, the Company modified the exercise price of 7,260,242 share options to US$0.0001 and the number of share options was reduced to 3,630,121. The incremental compensation expense was insignificant and was recognized over the remaining service period.

On February 15, 2017, the Company extended the contract life of 2,435,709 share options granted under 2008 plan from six years to ten years. On March 1, 2018, the Company extended the contract life of 200,523 share options granted under 2008 plan from six years to ten years. The incremental compensation expense for the modifications were insignificant and were recognized immediately since the share options were fully vested.

The total intrinsic value of options exercised for the years ended December 31, 2016, 2017 and 2018 was RMB26,587, RMB103,082 and RMB11,026(US$1,604), respectively.

The weighted-average grant date fair value for options granted during the years ended December 31, 2016, 2017 and 2018 was US$1.47, US$2.66 and US$1.28, respectively, computed using the binomial option pricing model.

The total fair value of share options vested during the years ended December 31, 2016, 2017, and 2018 was RMB67,727, RMB82,814 and RMB73,997(US$10,762), respectively.

The Company estimated the expected volatility at the date of grant date and each option valuation date based on the annualized standard deviation of the daily return embedded in historical share prices of comparable companies. Risk free interest rate was estimated based on the yield to maturity of US treasury bonds denominated in US$ at the option valuation date. The exercise multiple is estimated as the ratio of fair value of underlying shares over the exercise price as at the time the option is exercised, based on a consideration of research study regarding exercise pattern based on empirical studies on the actual exercise behavior of employees. The Company has never declared or paid any cash dividends on its capital stock, and the Company does not anticipate any dividend payments on its ordinary shares in the foreseeable future. Time to maturity is the contract life of the option, and estimated forfeiture rates are determined based on historical employee turnover rate.

(All amounts in thousands, except for share and per share data, or otherwise noted)

17. Share-based Compensation Expenses - continued

The grant date fair value of each option is calculated using a binomial option pricing model with the following assumptions:

	2016	2017	2018
Expected volatility	55.86%-57.49%	51.39%-52.4%	49.9%
Risk-free interest rate	1.85%-2.4%	2.21%-2.45%	2.97%
Exercise multiple	2.2-2.8	2.2-2.8	2.2-2.8
Expected dividend yield	0%	0%	0%
Time to maturity (in years)	10	10	10
Expected forfeiture rate (post-vesting)	0-20%	0%-20%	0%-20%
Fair value of the common share on the date of option grant	US$2.68-2.97	US$1.39-2.92	US$1.24-1.35
	RMB18.6-20.60	RMB9.05-18.98	RMB8.54-9.31

As of December 31, 2018, there was RMB86,902 in total unrecognized compensation expense related to unvested options, which is expected to be recognized over a weighted-average period of 2.74 years.

Restricted shares

The total intrinsic value of restricted shares vested for the years ended December 31, 2016, 2017 and 2018 were RMB1,777, RMB2,468 and RMB1,470(US$214), respectively.

The fair value of restricted shares with service conditions is based on the fair market value of the underlying ordinary shares on the date of grant.

The following table summarizes the Company’s restricted shares activity under the plans:

	Numbers of restricted shares	Weighted average grant date fair value
Outstanding as of January 1, 2018	104,779	3.82
Granted	210,000	2.23
Vested	(91,380)	3.28
Outstanding as of December 31, 2018	223,399	2.54
Vested and expected to vest at December 31, 2018	223,399	2.54

As of December 31, 2018, there was RMB3,778 in total unrecognized compensation expense related to restricted shares, which is expected to be recognized over a weighted-average period of 2.69 years.

(All amounts in thousands, except for share and per share data, or otherwise noted)

18. Loss Per Share

The following table sets forth the computation of basic and diluted loss per share for the periods indicated:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Numerator:				
Net loss attributable to Tuniu Corporation	(2,407,194)	(767,304)	(185,512)	(26,981)
Accretion on redeemable noncontrolling interests	(106)	(5,725)	(2,422)	(352)
Numerator for basic and diluted net loss per share	(2,407,300)	(773,029)	(187,934)	(27,333)
Denominator:				
Weighted average number of ordinary shares outstanding-basic and diluted	373,347,855	378,230,039	377,744,381	377,744,381
Loss per share-basic and diluted	(6.45)	(2.04)	(0.50)	(0.07)

The Company had securities which could potentially dilute basic loss per share in the future, which were excluded from the computation of diluted loss per share as their effects would have been anti-dilutive. Such outstanding securities consist of the share options and unvested restricted shares with the number of 31,733,446, 17,269,396 and 8,316,843, for the years ended December 31, 2016, 2017 and 2018, respectively.

19. Restricted Net Assets

Pursuant to laws applicable to entities incorporated in the PRC, the Group’s subsidiaries and Affiliated Entities in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires an annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the accumulative amount of such reserve fund reaches 50% of a company’s registered capital; the other fund appropriations are at the subsidiaries’ discretion. These reserve funds can only be used for specific purposes of enterprise expansion and staff bonus and welfare and are not distributable as cash dividends. In addition, due to restrictions on the distribution of share capital from the Group’s PRC subsidiaries and Affiliated Entities and also as a result of these entities’ unreserved accumulated losses, total restrictions placed on the distribution of the Group’s PRC subsidiaries and Affiliated Entities’ net assets was RMB1,721 million, or 51.4% of the Group’s total consolidated net assets as of December 31, 2018.

(All amounts in thousands, except for share and per share data, or otherwise noted)

20. Commitments and Contingencies

(a) Operating Lease Agreement

The Group leases its offices under non-cancelable operating lease agreements. Certain of these arrangements contain free or escalating rent clauses. The Group recognizes rental expense under such arrangements on a straight-line basis over the lease term. Rental expenses amounting to RMB86,830, RMB76,599 and RMB71,379 during the years ended December 31, 2016, 2017 and 2018, respectively, were charged to the consolidated statements of comprehensive loss when incurred.

As of December 31, 2018, future minimum commitments under non-cancelable agreements were as follows:

Years Ending December 31,	RMB	US$ (Note 2(d))
2019	101,947	14,828
2020	75,523	10,984
2021	33,952	4,938
2022	3,712	540
2023 and thereafter	2,124	309
Total	217,258	31,599

(b) Capital Commitments

As of December 31, 2018, capital commitments relating to leasehold improvement, purchase of equipment and construction of office building were approximately RMB 15,079.

(c) Contingencies

From time to time, the Group is involved in claims and legal proceedings that arise in the ordinary course of business. Based on currently available information, management does not believe that the ultimate outcome of these unresolved matters, individually and in the aggregate, is likely to have a material adverse effect on the Group's financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Group's financial position and results of operations for the periods in which the unfavorable outcome occurs.

The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis. In 2016, the Group received a lawsuit for claim of RMB8.8 million due to the Group's delay in payments for office rental and recorded the provision in accordance with *ASC 450, Contingencies.* During the year ended December 31, 2018, based on the result of Court's final judgment that the Group's loss was limited to RMB1.4 million, which was the deposit paid by the Group, the remaining provision of RMB7.4 million was reversed accordingly.

(d) Other commitments

Deposits or guarantees are required by the Group's business partners for air ticketing and tourist attraction tickets. Letters of guarantee are issued by banks to the Group's business partners with total amount of RMB212 million and RMB242 million as of December 31, 2017 and 2018, respectively, which occupies the Group's revolving credit facilities granted by banks with the total amount of RMB520 million as of December 31, 2018.

(All amounts in thousands, except for share and per share data, or otherwise noted)

21. Related party transactions and balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The following entities are considered to be related parties to the Group:

Name of related parties	Relationship with the Group
Ctrip Investment Holding Co., Ltd. ("Ctrip")	one board director of the Group
JD.com, Inc. ("JD")	one board director of the Group
HNA Tourism Holdings Group Co., Ltd. ("HNA")	two board directors of the Group
Black Fish Group Ltd. ("Black Fish")	founded by one of the former principal shareholders of the Group
Fullshare Holdings Limited ("Fullshare")	a principal shareholder of the Group

On May 25, 2018, Fullshare completed the purchase of 4,104,137 Class A ordinary shares and 6,949,997 Class B ordinary shares from the Group's previous principal shareholder Mr.Haifeng Yan. Since then, Haifeng Yan was no longer the Group's principal shareholder and Black Fish founded by Mr. Haifeng Yan ceased to be the Group's related party.

a) Transactions with related parties:

Ctrip purchased 5,000,000 Class A ordinary shares in a private placement concurrent with the Group's initial public offering, an additional 3,731,034 Class A ordinary shares for a total of US$15 million through a private placement transaction in December 2014 as well as an additional 3,750,000 Class A ordinary shares for a total of US$20 million through a private placement transaction in May 2015.

The Group sells packaged tours through Ctrip's online platform and the commission fees to Ctrip were insignificant. Revenues from Ctrip consist of commission fees for the booking of hotel rooms and air tickets through the Group's online platform, amounted of RMB54.8 million, RMB61.5 million and RMB 161.7 million (US$23.5 million) for the years ended December 31, 2016, 2017 and 2018, respectively.

On May 8, 2015, the Company issued 65,625,000 Class A ordinary shares to Fabulous Jade Global Limited, a subsidiary of JD, for cash consideration of RMB1,528.2 million (US$250 million) and RMB660.2 million representing the fair value of business resource contributed by JD, which include the exclusive rights to operate the leisure travel channel for both JD's website and mobile application, JD's preferred partnership for hotel and air ticket reservation service, internet traffic support and marketing support for the leisure travel channel for a period of five years starting from August 2015.

On January 21, 2016, the Company issued 90,909,091 Class A ordinary shares to HNA Tourism Holdings Group Co., Ltd., for total consideration of RMB3,279 million (US$500 million).

In 2017, the Group disposed several subsidiaries to Black Fish with nominal consideration. As of the disposal date, these subsidiaries were in deficit positions and disposal gain was insignificant in the Group's consolidated statement of comprehensive income.

Black Fish entered into cooperation agreements with the Group in 2017 for provision of services in relation to the Group's online lending services. The amount of service fees charged by Black Fish was RMB155.9 million (US$24.0 million) for the year ended December 31, 2017. Black Fish also purchased loan receivable assets related to the lending business from the Group at the consideration of RMB140.0 million as the Group terminated these cooperation agreements and stopped granting loans to individuals in 2017.

HNA agreed to provide the Group with access to its premium airlines and hotels resources at a preferential rate, under fair competition market rules, and the Group undertook to acquire no less than US$100 million products and services sourced from HNA over the next two years. The Group purchased RMB250.5 million, RMB394.7 million, RMB588.9 million (US$85.7 million) air tickets from HNA for the year ended December 31, 2016, 2017 and 2018, respectively.

During the year ended December 31, 2018, the Group provided account receivables factoring service to an affiliate of HNA Tourism amounting to RMB500 million (US$72.7 million) with a repayment term of 12 months.

During the year ended December 31, 2018, Fullshare made several prepayment s to the Group for travelling products, which was RMB1.6 million (US$0.2 million) in 2018.

(All amounts in thousands, except for share and per share data, or otherwise noted)

21. Related party transactions and balances - continued

b) Balances with related parties:

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
Current:			
Amounts due from Ctrip	16,128	11,091	1,613
Amounts due from JD	10,942	50,336	7,321
Amounts due from HNA	143,084	635,093	92,371
Amounts due from Black Fish	1,177	—	—
Total	171,331	696,520	101,305
Current:			
Amounts due to Ctrip	86,923	73,229	10,650
Amounts due to JD	—	2,350	342
Amounts due to Fullshare	—	1,580	230
Total	86,923	77,159	11,222

FINANCIAL STATEMENT SCHEDULE I
TUNIU CORPORATION

CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

CONDENSED BALANCE SHEETS
(All amounts in thousands, except for share and per share data, or otherwise noted)

	As of December 31,		
	2017	2018	
	RMB	RMB	US$ (Note 2(d))
ASSETS			
Current assets			
Cash and cash equivalents	293	250	36
Amounts due from subsidiaries and Affiliated Entities	7,035,131	7,116,514	1,035,054
Prepayments and other current assets	570	226	33
Total current assets	7,035,994	7,116,990	1,035,123
Intangible assets	343,583	211,540	30,767
Total assets	7,379,577	7,328,530	1,065,890
LIABILITIES AND EQUITY			
Current liabilities			
Accrued expenses and other current liabilities	8,232	10,989	1,598
Total current liabilities	8,232	10,989	1,598
Non-current liabilities			
Investment deficit in subsidiaries and Affiliated Entities	3,776,234	3,967,178	577,002
Total non-current liabilities	3,776,234	3,967,178	577,002
Total liabilities	3,784,466	3,978,167	578,600
Equity			
Ordinary shares (US$0.0001 par value; 1,000,000,000 shares (including 780,000,000 Class A shares, 120,000,000 Class B shares and 100,000,000 shares to be designated by the Board of Directors) authorized as of December 31, 2017 and 2018; 388,918,015 shares (including 371,544,515 Class A shares and 17,373,500 Class B shares) and 389,331,544 shares (including 371,958,044 Class A shares and 17,373,500 Class B shares) issued and outstanding as of December 31, 2017 and 2018, respectively)	248	249	36
Less: Treasury stock	(185,419)	(304,535)	(44,293)
Additional paid-in capital	9,013,793	9,061,979	1,318,010
Accumulated other comprehensive income	272,386	284,079	41,318
Accumulated deficit	(5,505,897)	(5,691,409)	(827,781)
Total Tuniu Corporation shareholders' equity	3,595,111	3,350,363	487,290
Total liabilities and equity	7,379,577	7,328,530	1,065,890

FINANCIAL STATEMENT SCHEDULE I
TUNIU CORPORATION

CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Operating expenses				
General and administrative	(11,657)	(6,715)	(3,147)	(458)
Share of loss of subsidiaries and affiliated entities	(2,230,637)	(761,841)	(183,670)	(26,714)
Total operating expenses	(2,242,294)	(768,556)	(186,817)	(27,172)
Loss from operations	(2,242,294)	(768,556)	(186,817)	(27,172)
Other income/(expenses)				
Interest income	1,418	6	—	—
Foreign exchange losses, net	(167,405)	(12)	—	—
Other income, net	1,087	1,258	1,305	191
Loss before income tax expense	(2,407,194)	(767,304)	(185,512)	(26,981)
Net loss	(2,407,194)	(767,304)	(185,512)	(26,981)
Accretion on redeemable noncontrolling interests	(106)	(5,725)	(2,422)	(352)
Net loss attributable to ordinary shareholders	(2,407,300)	(773,029)	(187,934)	(27,333)
Net loss	(2,407,194)	(767,304)	(185,512)	(26,981)
Other comprehensive income/(loss)				
Foreign currency translation adjustment, net of nil tax	233,900	(128,539)	11,693	1,701
Comprehensive loss	(2,173,294)	(895,843)	(173,819)	(25,280)

FINANCIAL STATEMENT SCHEDULE I
TUNIU CORPORATION

CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

CONDENSED STATEMENTS OF CASH FLOWS
(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US$ (Note 2(d))
Cash (used in)/provided by operating activities	(661,029)	(5,507)	1,266	184
Cash (used in)/provided by investing activities	(3,972,014)	402,418	133,189	19,372
Cash provided by/(used in) financing activities	3,264,610	(98,805)	(134,485)	(19,560)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	281,764	(301,241)	(13)	(3)
Net decrease in cash, cash equivalents and restricted cash	(1,086,669)	(3,135)	(43)	(7)
Cash, cash equivalents and restricted cash at the beginning of year	1,090,097	3,428	293	43
Cash, cash equivalents and restricted cash at the end of year	3,428	293	250	36
Supplemental disclosure of non-cash investing and financing activities				
Receivables related to exercise of stock option	(163)	(385)	(23)	(3)

FINANCIAL STATEMENT SCHEDULE I
TUNIU CORPORATION

CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

Note to Financial Statement Schedule I

Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 5-04-(c) of Regulation S-X, which require condensed financial information as to the financial position, change in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

The condensed financial information has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries and Affiliated Entities. Such investments in subsidiaries and Affiliated Entities are presented as investment deficit in subsidiaries and Affiliated Entities and the loss of the subsidiaries and Affiliated Entities is presented as share of loss of subsidiaries and Affiliated Entities.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote disclosures to the consolidated financial statements contain information relating to the operations of the parent company and, as such, this schedule should be read in conjunction with the notes to the accompanying consolidated financial statements.

As of December 31, 2018, the parent company had no significant capital and other commitments, long-term obligations, or guarantee, except for those which have separately disclosed in the consolidated financial statements.